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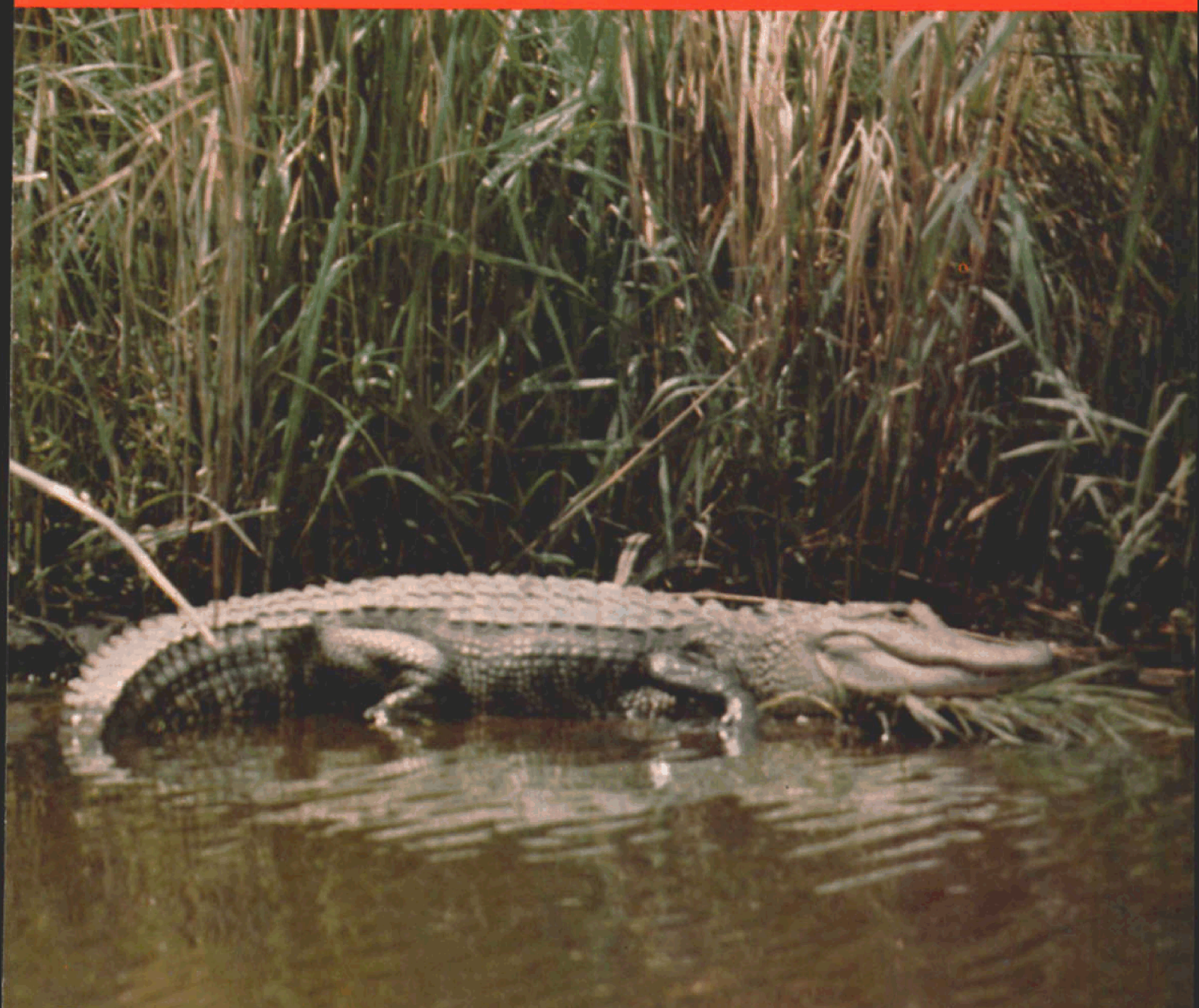

SAVING THE WILDERNESS
A Radical Proposal

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THE FASTEST GROWING CHURCH IN THE WORLD

by Brother Keith E. L'Hommedieu, D.D.

It's quite safe to say that of all the organized religious sects on the current scene, one church in particular stands above all in its unique approach to religion. The Universal Life Church is the only organized church in the world with no traditional religious doctrine. In the words of Kirby J. Hensley, founder, "The ULC only believes in what is right, and that all people have the right to determine what beliefs are right for them, as long as they do not interfere with the rights of others."

Reverend Hensley is the leader of the worldwide Universal Life Church with a membership now exceeding 11 million ordained ministers of all religious beliefs. Reverend Hensley started the church in his garage by ordaining ministers by mail. During the 1960's, he traveled all across the country appearing at college rallies held in his honor where he would perform mass ordinations of thousands of people at a time. These new ministers were then exempt from being inducted into the armed forces during the undeclared Vietnam war.

In 1966 Reverend Hensley was fighting the establishment on another front. The IRS tried to claim the ULC wasn't a legal church and proceeded to impound the ten thousand dollars in the church bank account. The feisty Hensley filed suit against the IRS in federal district court for return of the funds and to permanently establish the ULC as a legal tax exempt entity. On March 1, 1974 Judge James F. Battin ruled against the IRS in his decision which stated, "Neither this court or any branch of this government will consider the merits or fallacies of a religion. Nor will the court praise or condemn a religion. Were the court to do so, it would impinge upon the guarantees of the First Amendment." The judge then ordered the IRS to return the impounded money and to grant the Universal Life Church its tax exempt status.

Reverend Hensley has stated that he believes a church is people and not just a fancy building. He also believes in total freedom and equality for all people. The ULC will ordain anyone without regard to religious beliefs, race, nationality, sex or age.

The ULC's success formula is both effective and unquestionably legal. After a person has become an ordained minister, he or she can join with two other people and form their own Universal Life Church. These three people then make up the Board of Directors consisting of a Pastor, a Secretary and a Treasurer. The ULC will then grant the group the use of its legal church charter complete with both federal and state tax exempt numbers. The newly formed church may then open a bank account in the church's name. Any member of the church can legally donate up to 50% of his or her outside income to the church and take a corresponding tax deduction. The church in turn can pay the complete housing cost of its minister including rent or mortgage payment, insurance, taxes, furnishings and repairs. The church can also provide the minister with full use of an automobile as well as pay for travel and educational expenses. None of these expenses are reported as income to the IRS. Recently a whole town in Hardenburg, New York became Universal Life ministers and turned their homes into religious retreats and monasteries thereby relieving themselves of property taxes, at least until the state tries to figure out what to do.

Brother L'Hommedieu is Chairman of the Board of Trustees of the Sacerdotal Order of the Universal Life and serves on the Board of Directors of the International Universal Life Church, Inc.

Churches enjoy certain other tax benefits over the common man on the street. For instance, a church can legally buy and sell real estate or stocks and bonds completely tax free. It can receive tax free income from bank deposits or mortgages. Many churches own large publishing, recording, or other related businesses like hospitals, clinics and schools without paying any income tax.

A church can sponsor any kind of fund raising event such as a concert, play or even bingo. Churches are also exempt from paying inheritance taxes. When the pastor of the church dies, the Board of Directors simply appoints a new pastor and the church goes on.

Reverend Hensley has stated that he personally doesn't believe in the tax exempt status of churches. However, if the government is going to give a free ride to Billy Graham and the Pope, then why not let everybody participate in these blessings. Furthermore, he backs his words up by offering to defend in court the tax exempt status of his congregations.

Since the church was founded in 1962, it has attracted members who are movie and TV personalities, businessmen, government officials, lawyers, and doctors as well as all types of regular working people. During the last 15 years the Universal Life church has blossomed into a full blown grass roots populace movement. Reverend Hensley is ordaining ten thousand new ministers a week and predicts that the church will have over 20,000,000 members by the early 1980's. In addition, requests for interviews and TV appearances continue to pour in.

Anyone who is a member of the ULC will tell you that the ULC is destined to change the world. By unifying mankind into a brotherhood of freedom orientated individuals, each respecting the other's right to live life as they see fit, the Universal Life Church hopes to put an end to all wars. Reverend Hensley admits that this is a pretty monumental task to accomplish, but he also points out that he is already well on the way to reaching his goal.

Rev. Hensley invites all those interested in becoming an ordained minister and receiving complete information and Minister's Credentials, to send a $10.00 tax deductible donation to the Universal Life Church, 1335 Seabright Ave., Dept. **815**, Santa Cruz, CA 95062

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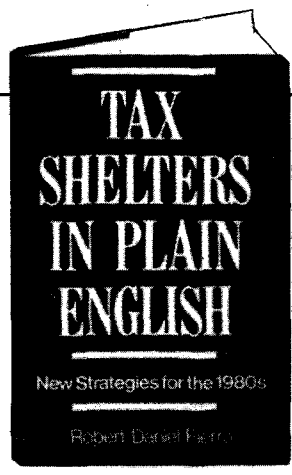

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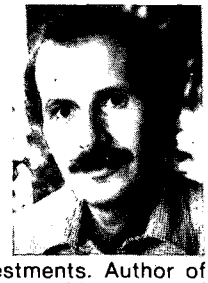

Meet Robert Daniel Fierro who spent the better part of the 1970s tracking the development of Tax Shelter trends from "the inside"—as consultant to many firms which organized and marketed these investments. Author of scores of articles on this topic and other areas of personal finance, Mr. Fierro was an editor of the famed McGraw-Hill's *Personal Finance Letter,* and now contributes to *Money, Venture, Prime Time, The New York Times,* etc.

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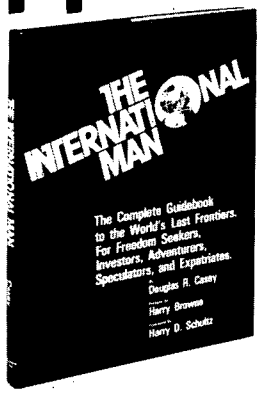
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Free minds and free markets

July 1981/Vol. 13, No. 3

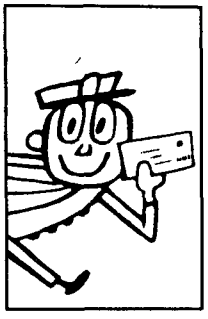
FEATURES

SAVING THE WILDERNESS: A RADICAL PROPOSAL
Strategic minerals are "in" in Washington, and environmentalists may be learning that politics is not the best way to preserve the pristine. But there's a better way to supply minerals, too.
By John Baden and Richard Stroup **28**

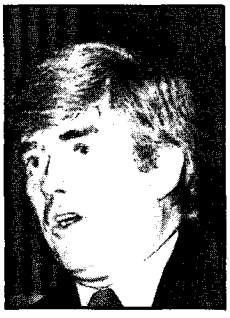
KEPT CRITICS
If you were a regulator and you could shell out money for testimony about your proposed regulations, do you think your star witnesses would be for or against them?
By Morgan Norval **37**

WHAT CAN BE SAID FOR NINE DIGITS?
Zip. Zero. Zilch. The zenith of zaniness.
By Byron Farwell **43**

Wilderness worries **28**



Mr. Zip **43**



Supply-sider **44**

A WALK ON THE SUPPLY SIDE
All of a sudden, everybody is talking the new economics. But it didn't just drop out of nowhere. There are people and facts behind the hottest thing since Keynesianism.
By J. William Middendorf, II **44**

SUPPLY-SIDE SUCCESS STORIES
"It sounds pretty good, but it's just a theory." If you've heard that about supply-side economics, look again, around the world.
By Bruce Bartlett **48**

Cover photo by John Williams

DEPARTMENTS

EDITORIAL/Rethinking Foreign Aid **8**
VIEWPOINT/Traffic Light Reflections **54**
TAXES/Watching Out for the IRS **55**
SPOTLIGHT/Gold's Standardbearer **56**

EDITOR'S NOTES **6**
LETTERS **12**
BRICKBATS **18**
TRENDS **20**
ARTS & LETTERS **57**
RUDEBARBS **65**

REASON is published monthly by the Reason Foundation, 1018 Garden St., Santa Barbara, CA 93101. Tel. (805) 963-5993. Second class postage paid at Santa Barbara, CA, and at additional mailing offices. Postmaster: Please send Form 3579 to REASON, Box 40105, Santa Barbara, CA 93103.

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CHANGE OF ADDRESS: Please allow six weeks for change of address. Send address label and new address to Circulation Dept., REASON, Box 40105, Santa Barbara, CA 93103. Requests for missing issues due to late notice of change of address, or older than two months from current date, will not be honored unless accompanied by payment.

ISSN 0048-6906

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BACK ISSUES: Write for back issue list for current prices. Volumes 1-4 are available on microfilm from University of Southern California Library Micrographics Dept., University Park, Los Angeles, CA 90007. Volumes 5 and up are available from Xerox University Microfilms, 300 North Zeeb Rd., Ann Arbor, MI 48106. Indexed in *America: History and Life, Historical Abstracts*, and *Public Affairs Information Service Bulletin.*

editor's notes

REASON articles continue to attract interest from many quarters. Our famed Love Canal exposé is being reprinted for distribution to the stockholders of Occidental Petroleum, parent company of Hooker Chemicals & Plastics, the firm involved in the story. And the Chicken Little Club, which called the article a "painstaking analysis," has awarded its Cluck of the Year award for 1980 to journalist Michael Brown. It was Brown, you'll recall, whose book *Laying Waste: The Poisoning of America by Toxic Chemicals*, erroneously blamed the Love Canal seepage on Hooker instead of the city.

Another REASON story has made history, of a sort. Our May 1976 article on the highly successful Arizona private fire protection firm, Rural-Metro Fire Department, Inc., was later picked up by CBS's *60 Minutes*. That exposure, in turn, has led to creation of similar operations in Illinois and Georgia. But now comes the ultimate compliment: Rural-Metro has become the subject of a Harvard Business School case study. And on March 23 Rural-Metro founder Louis A. Witzeman and vice-president Ron Butler took part in a series of classes at the Business School, conducted by Prof. David H. Maister. By sheer coincidence, I was in Boston that day and was able to participate in the afternoon seminar. Privatization of public services has come a long way since 1976.

The Reason Foundation recently helped to bring together economists and philosophers to discuss relationships between the two disciplines—for example, can economists really operate as "value-free" scientists, or do such basic tools of their trade as "value," "trade," and "property rights" carry with them normative overtones? Cosponsored by the Foundation for Advanced Studies in Liberty and the Institute for Humane Studies, and coordinated by Leonard Liggio of those groups and Tibor Machan of the Reason Foundation, the conference took place March 28 at California State University, Northridge. Among those participating were Foundation trustees William Niskanen and Norman Karlin, advisory board members Cheri Adrian, William Allen, and John Hospers, and economists David Friedman, Jack High, and Thomas Hazlett. While no consensus was reached on the conference topic, the discussions stimulated a great deal of thinking.

Our editorial staff members continue their public activities. Senior Editor Tibor Machan had an op-ed page article published in the *Washington Star* in April called "Countering Corporation Phobia"; it was timed to commemorate (anti) Big Business Day. Assistant Editor Christine Dorffi had an article on abortion in the March issue of *Liberty*, published by Students for a Libertarian Society. Meanwhile, I addressed the Los Angeles Chamber of Commerce in April on the subject of privatization of public services. I also spoke at the Future of Freedom conference in May on new applications of private property rights and have also joined the board of advisors of Human Action to Limit Taxes, a Vancouver, BC organization. The other advisors are economists Henry Hazlitt and Hans Sennholz.

Robert Chitester's Public Communications, Inc., the innovative producer of the Milton Friedman *Free to Choose* TV series and the Stan Freberg *Federal Budget Revue*, is off on another project. Called *Jamaica in Transition*, it will be a one-hour television special on the shift toward a free-market economy in that island nation since last fall's election of prime minister Edward Seaga. Co-producer of the program is the University of Miami Law and Economics Center.

The Reason Foundation's major study of deregulation will be published this September. Nearly two years in the making, the book presents evidence and arguments for substituting marketplace arrangements for major government regulatory agencies like the FCC, OSHA, the FDA, and the EPA. Called *Instead of Regulation*, the book is being published by D. C. Heath/Lexington Books. It will be introduced at a congressional and press briefing in Washington this fall. Contributions to help us publicize this important book would be most welcome (and, of course, are tax-deductible).

—R. P.

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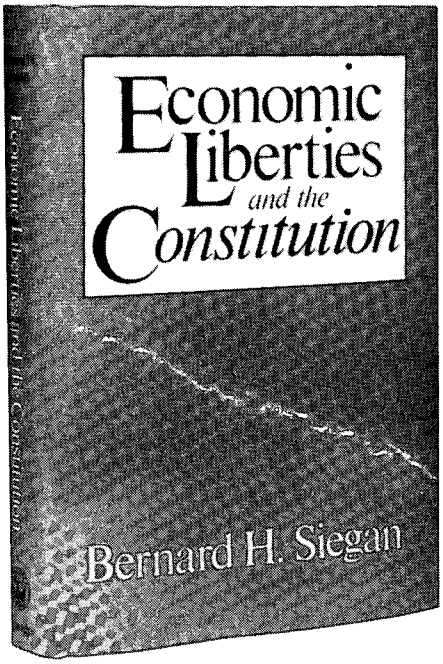

ECONOMIC LIBERTIES and the CONSTITUTION

Bernard H. Siegan

In this challenging book, Siegan declares that, if the Supreme Court were doing its job as the Framers of the Constitution and the Fourteenth Amendment intended, the nation would be much less burdened with excessive economic regulation. He points out that, while the Court is zealous in terminating state laws that threaten free expression, sexual privacy, or religious observance, since the 1940s it has done nothing about laws that limit the right of individuals or private corporations to engage in legitimate economic activities.

The result has been to give governments at all levels much greater power over the economic system and to harm society by inhibiting production, raising prices, curtailing competition and creating unemployment. Those most often harmed, concludes Siegan, are those who were supposed to be protected– people on the lowest rung of the economic ladder. 383 pages. $19.50

The University of Chicago Press
5801 Ellis Avenue, Chicago IL 60637

Rethinking Foreign Aid

editorial

LAST JANUARY, OFFICE OF MANAGEMENT AND BUDGET Director David Stockman proposed cutting $2.6 billion in federal subsidies to farmers, aircraft manufacturers, international banks, and multinational corporations. The proposal promptly ran into a buzz saw of opposition—not just from the interest groups themselves but from . . . the State Department. For the subsidies in question go by the name of *foreign aid.*

Mention this term to the average person, and you create an image of starving children in the Sahel, CARE packages, and courageous doctors wiping out malaria. That's a very convenient image for Chase Manhattan Bank, Boeing, and General Electric to cultivate. But it's a fraud on the American taxpayer—a fraud that is long overdue for exposure.

The fact is that the major foreign aid programs serve the interests of large corporations, the foreign service bureaucracy, and ruling elites of the recipient countries. Individual citizens of those countries benefit little, if at all, from these billion-dollar boondoggles.

You'd like specifics? The Food for Peace Program (PL 480) was created specifically to dispose of agricultural surpluses generated by the government's farm subsidy programs. Further tax dollars are used to buy up this food (which would otherwise remain in the marketplace exerting downward pressure on prices) and send it to places like Bangladesh—where it is not given to the poor at all but sold by Bangladesh's government to the urban middle class.

Aid dispensed by the International Monetary Fund and the World Bank serves primarily to prevent Third World governments from defaulting on their loans from Citibank, Chase Manhattan, and Manufacturers Hanover Bank. Direct US aid—even its supporters admit—is spent largely on contracts with US multinationals to construct huge government-owned infrastructure projects, thereby helping to increase the power of ruling elites in those countries—witness the Shah of Iran.

And two other components of foreign aid explicitly subsidize big business. The Export-Import Bank provides subsidized loans to foreign governments so they can buy US-made products; in recent years, the major beneficiaries have been Boeing and McDonnell-Douglas. And the Overseas Private Investment Corporation (OPIC) provides taxpayer-funded insurance against nationalization for facilities constructed overseas. Half of all OPIC's coverage extends to just 10 giant firms, including Chase Manhattan, General Electric, Manufacturers Hanover, Hooker Chemical, and International Paper. (Smaller firms, interestingly enough, are increasingly finding that they can purchase political risk insurance in the private marketplace.)

The critics of this giant con game span the political spectrum. Liberal agricultural specialists William and Elizabeth Paddock spent 10 years working in Guatemala in the 1960s; their 1973 volume on foreign aid and the attempt to promote development was titled, aptly, *We Don't Know How.* Classical economist P. T. Bauer, in *Dissent on Development* (1972), showed how aid programs *inhibit* development because they are based on economic misconceptions. More recently, in *Aid as Obstacle,* leftist writer Frances Moore Lappé reluctantly concluded, as well, that "the aid we give is actually making development in dozens of countries worse, not better."

Even if foreign aid did what its supporters claim it does—improve the lives of people in Third World countries by promoting economic development—it is not a legitimate function of the US government to do so. So argues economist Dwight Phaup in the Heritage Foundation's *Agenda for Progress* (1981). Stating that spending for foreign aid must be judged on the same basis as domestic spending programs, Phaup concludes that "the taxpayers should be able to have a reasonable expectation that foreign affairs programs will generate some benefit which clearly accrues to the citizens of the US (and which would not otherwise be provided through private arrangements)." Nearly all of the existing foreign aid programs, Phaup concludes, fail this test.

But Phaup's basic point—that aid should involve a quid pro quo—all too easily provides a license for interventionism. "*If you don't have foreign aid, you don't have a workable foreign policy,*" an alarmed diplomat told *Time* in the aftermath of Stockman's proposed cutbacks. In other words, if the government's aim is to control and manipulate affairs in other lands, foreign aid is an essential lever. By the same token, if one's aim is to end that sort of intervention, getting rid of foreign aid is an essential precondition. Only where buying off other governments can directly contribute to the defense of this country should such quid pro quos even be considered.

What about the plight of the world's impoverished masses, then? Isn't there anything our government can legitimately do? In fact, there are several things it could do. One would be to eliminate the laws that prevent Third World peoples from selling their products to Americans—tariffs, import quotas, "orderly marketing agreements," etc. Another would be to get rid of tax and regulatory policies that discourage US firms from investing capital in other countries.

But the most important efforts lie in the intellectual arena. Through participation in international forums and through its own communications media (for example, the Voice of America), our government could educate Third World people on what it takes for *real* development to occur. As Jude Wanniski and other supply-siders have pointed out, the countries that have prospered have been precisely those that did *not* follow the advice of "development economists" of the IMF and the World Bank by imposing progressive income taxes and building up a costly governmental infrastructure (see Bruce Bartlett's article on p. 48). Instead, places like Hong Kong, Taiwan, and the Ivory Coast created a climate that fostered entrepreneurship: low taxes, minimal regulation, and secure property rights.

What a tremendous success story we have to sell, if only those who make US foreign policy could be brought to understand it themselves! As long as they remain the captives of the status quo interests of Boeing and Chase Manhattan, our policymakers will continue to promote big government in the Third World. Only a rediscovery of the principles of individualism and free enterprise will make possible a radically different foreign policy—one that offers hope for creating real wealth by unleashing entrepreneurship around the world.

Robert Poole, Jr.

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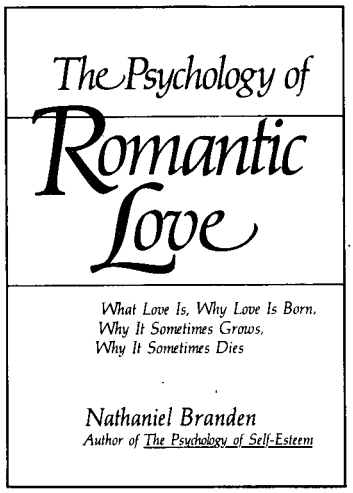
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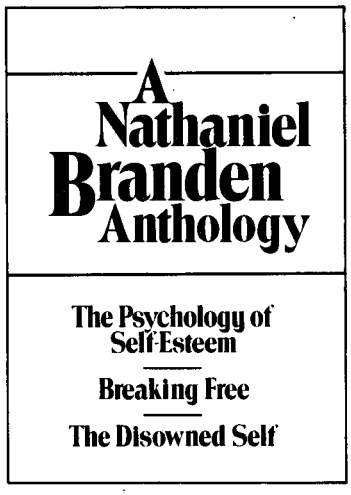

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letters

Nothing Sinister

Some concern has been expressed that my article, "The Plot to Take Over America's Railroads" (Mar.) may have implied in some people's minds that Federal Railroad Administration officials have accepted payoffs from the industry they regulate. It is worth emphasizing that I have encountered no evidence for such a suggestion.

Indeed, I want to separate myself from the simplistic and unjust interpretation of events that leads to "conspiracy theories" about government activity. My article, readers should note, acknowledged an overt official policy of promoting progress in the transportation sector. It also posed a contradiction in such policies: when an agency commits itself to funding, promoting, and defending a given set of innovative ideas, it necessarily positions itself in the marketplace, impacting approaches not so favored. Therein lies the "plot" of the story—one entirely consistent with good intentions on the part of the regulators. We all know that governmental activity should be evaluated in light of its unintended as well as intended effects. Such consequences of economic regulation are usually far more important in the scheme of things than either the personalities involved or the stated policies themselves, and in the case of the FRA we need not question the integrity of public officials in order to prove our point about regulation.

William D. Burt
Greenwich, CT

Enlightening Editorial

I thought that your April editorial was very good. I think it is very important to show in fact what we know in theory—that the Soviet Union is increasingly vulnerable due to its economic system. Recent studies, both by the Pentagon and private groups, indicate the overall superiority of the NATO Alliance over the Warsaw Pact armaments. For example, the Soviets keep outmoded non-jet aircraft in their main force, while the United States puts them in storage and does not count them in the defense estimates.

More important, your point for the necessity to make the moral case for capitalism needs to be placed in the center of discussion. Since the beginning of the Cold War, the West has made the case for various forms of noncapitalism—welfare state, democratic socialism, etc. Those making the case for capitalism want to emphasize the efficiency side. That is an argument that has been made very well in theory and practice. Yet, if people are not convinced of the moral case, they will be hostile to capitalism.

Again, the editorial was first-rate.

Leonard P. Liggio
Menlo Park, CA

Hands Off, Period

In his May editorial, "Facing Reality in Latin America," it really seems strange that Mr. Poole should reject a suggestion that the United States should have destabilized Somoza while setting forth his own suggestion that we should exchange our farmers' right to sell their products to the USSR for the removal of Soviet bases in Cuba and a promise of noninterference in El Salvador. I was not aware that embargo was a libertarian tool of foreign policy or that Soviet activities in Cuba were any of our business.

The Soviets have nuclear subs, ICBMs, and orbital missiles. How can they possibly be any greater a threat to our legitimate interests than they already are? Mr. Poole's "reality in Latin America" is obviously a watered down form of realpolitik for Latin America. If embargo is a legitimate tool in peacetime, where do we draw the line? Or is Mr. Poole tacitly endorsing the Cold War?

I have no qualms about building up our defensive capabilities by developing new weapons, as was suggested in an earlier editorial, but this tough talk about "tough diplomacy" seems out of place in an editorial that preaches a US policy of "hands off" and "mouths closed." Mr. Poole seems to me to sometimes go overboard in his effort to find compromise solutions. If the free market works so well, then why hamper our economy with an embargo every time the Soviets invade a client state? Why should our farmers' livelihood and our balance of payments depend on tough diplomatic bargains?...It seems very unrealistic to me to expect the Soviets to abandon their only advanced base, when we have them encircled with bases, in exchange for food and technology that they can buy elsewhere.

I believe that Poole's editorial only blurs the reality in Latin America by quoting State Department figures. The El Salvadoran's primary sources of guns are the United States and Western Europe. And I would take with a grain of salt the new fantasy about running guns which we abandoned in Ethiopia and Vietnam. Even if it was 800 tons, and if, as Poole failed to mention, most of it was second-hand US goods, those Soviet devils sure found an ironic way of screwing Uncle Sam this time.

Steven B. Vandervelde
Columbia, SC

What to Do about Progressivism

The article by Paul Ciotti ("Socialism... On the Street Where you Live," Apr.) sounds a warning we must heed.

Here in Philadelphia, the Democrats control city government through a traditional machine that lives off patronage and favors. The Republicans are totally bankrupt intellectually and exist only on the crumbs left them by the Democrats. The only "new ideas" come from the "progressives" organized in the Consumer Party, a collection of mostly intelligent leftists masquerading as "friends of the people." Their chief issues are a takeover of the electric company monopoly, imposition of rent controls, taxation of business while preventing them from leaving the city, and forcing suburban taxpayers to further subsidize urban transit and education.

Mr. Ciotti leaves open the question of what we can do to stop these new power-seekers. In talking with Consumer Party people, I've found that their analysis of *what* is wrong matches the libertarian analysis in many respects. But, while we seek to roll back government intervention—for instance, by ending the electric company monopoly—they want to increase the power of government, as long as the power is in the right (that is, their) hands.

The fact that more and more intelligent people have identified these problems makes it easier for libertarians to have their ideas accepted by those who

have not yet been sucked into the "economic democracy solution." We have to do a much better job of demonstrating why a society modeled on the free market, and not on State capitalism or socialism, is more just, more compassionate, and more healthy for all individuals. Once we do that, the Tom Haydens and other power-seeking elitists will be finished. And, if we don't make the intellectual fight, who will?

David K. Walter
Warminster, PA

A Wordy Disclaimer

A review in REASON (Mar.) by Geoffrev Nathan of a book by Geoffrey Sampson attributes to me the following positions: I claim that my socialist anarchist political beliefs "flow out of [my] discoveries about the nature of human language"; I "virtually equate" behaviorism with empiricism; I claim that since empiricism is wrong, "liberalism (libertarianism)...must also be wrong"; I claim that "empiricism leads necessarily to totalitarianism."

I quite agree with Nathan in criticizing these positions. In fact, a person who advocated them would merit sympathy rather than criticism, since they verge on cretinism. The same may be said of anyone who is so deluded as to believe that ideas concerning social and political organization "flow out of" discoveries about the nature of human language. I also do not doubt that Nathan received the impression that I hold these ridiculous views from the book that he is reviewing, combined with his own gross misreading, e.g., of the single passage of mine that he cites. Nathan describes the book he is reviewing as a contribution to scholarship of a "libertarian orientation." If he had taken the trouble to compare its fabrications with my own writings, he would arrive at a rather different conclusion. However, it is not my purpose here to discuss the level of "scholarship" in this study, but rather to disassociate myself from the nonsensical views that Nathan, relying on Sampson, attributes to me.

Noam Chomsky
Cambridge, MA

Prof. Nathan replies: Having spent the last week comparing Sampson's allegations to Chomsky's actual writings, I am forced to conclude that Sampson is in fact correct. First, it is clear that Chomsky (as well as virtually all practicing linguists, myself included) believes at least some variety of rationalism "flows out of" his discoveries of the nature of language. Now, in the introductory pages to *Language and Responsibility,* Chomsky explicitly denies any connection between his linguistic theories and his political views. This denial is contradicted, however, in numerous places, by the strongly implied equation of capitalism with behaviorist doctrine. For example, in *For Reasons of State,* he equates "differential wages" with the variable reinforcement schedules of Skinner, and he twice equates capitalist ideology and behaviorism. As just one further example, in *Language and Responsibility* Chomsky asserts that the resilience of empiricism as a philosophical tenet is due to its usefulness in maintaining "capitalist ideology and capitalist institutions." Thus it is quite clear that Chomsky feels there is an intimate connection between political ideology and the basic epistemological dichotomy of empiricism versus rationalism. It is also beyond doubt that Chomsky (any many others) considers his discoveries about the nature and organization of language to have substantially refuted the empiricist view of learning. Perhaps the connection is not always explicit. Nevertheless, it is there.

An Amtrak Defense

Your attack on Amtrak in the "Congress's Toy Trains" article (May) has brought me to the reluctant resolution that I shall not be renewing my subscription to REASON at the end of its present term.

Firstly, I do not like the discussion of any serious subject with pejoratives and denigration. But the substance and the selection of this target also leave me discontented. Amtrak holds together a skeleton network of transportation that will be needed someday and will be re-expanded. But the cost of reestablishment will far overshadow the cost of its maintenance. If it requires current subsidies, they at least result in reducing the cost of the subsidized service. By contrast, consider the cost of the agricultural price support program, which not only costs tremendous sums for the direct price support operation, but also even greater indirect charges in the form of higher prices for consumers.

When you devote so many pages to the attack on Amtrak, while leaving more egregious problems untouched, it leads me to the belief that you select your

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targets on the basis of the estimated political clout of the reaction likely to be produced, rather than the measure of damage to the country. I think it is the latter which should be controlling. Amtrak was done much harm by its abandonment of center city stations. Consider Norfolk, Jacksonville, and Cleveland, for example. Certainly, the outrageous featherbedding practices should be stopped. But the whole thing seems to cost less than the cost overrun on one Trident submarine. The article touched on the subject of the highways, but not on the fact that the 40-ton trucks that are the reason for most of the highway system's construction and maintenance costs do not pay any significant part of these incremental costs demanded by their legalized presence.

George V. Eltgroth
Stamford, CT

Reading Report

Thank you for Scott Palmer's article (May) on public education. In the area where I live there are only two choices of schools: public school or the school operated by the Pentecostal Church. When gasoline was cheaper, I brought my daughter to a Montessori school 20 miles from here. She attended Montessori for three years; as a result she was eager to learn and had a positive attitude toward "going to school."

Most of your readers are familiar with the Montessori method of teaching and know of the wonderful results they achieve. When Fara was three, she could recognize the alphabet letters and began reading simple words at age four. However, in first grade at the public school, I was told Fara could not read. In second grade, she was placed in a reading lab for slow learners. She finished the lab reading on a fourth grade level while still in second grade. Yet in the third grade, she once again began to get bad grades in reading. I found this hard to understand because Fara could read anything at home that she wanted to read. I asked Fara to bring home her reading text book and there I realized what the problem was. The story she read to me was about a turtle named Theodore who kept losing his clothes from room to room and could not seem to get himself together enough to go out. Halfway through the story Fara stopped and said, "Mommy, it's just so boring." I had to agree. I give Fara money to buy books of her own choosing now, and I pay very little attention to her report cards.

I very much wish I had a better choice of schools to send my children to. Taxpayers are being ripped off for public education to the point of the whole thing being a very sad joke; no one is laughing.

Cheryl Boswell
Denham Springs, LA

Conservatism's Contradictions

Columnist George Will has finally said openly, in his syndicated column, what many ex-conservative libertarians realized for ourselves some time ago. Conservatism as a political philosophy *requires* a strong central government. Mr. Will was totally correct when he said that calling oneself a libertarian-conservative is akin to being a promiscuous celibate.

I can speak from personal knowledge as a former Goldwater Republican and an ex-Bircher. The Bircher slogan, "Less Government, More Responsibility," sounds good. As always, we must look beyond the slogan to the underlying philosophy. That philosophy requires near-total control.

To insure the type of military security beloved of the conservative movement requires covert espionage services as well as widespread domestic surveillance. After all, who knows which of our countrymen are plotting against national security unless we watch them all of the time? In this type of atmosphere legitimate dissent is stifled because any type of dissent may be grounds for suspicion.

Worse yet is the tie-in between conservatism and fundamentalist religion. My moral standards are my own. I have no desire to compel others to live by them, nor do I want others to compel me to live by their standards.

I hope that now that a prominent conservative writer has admitted just what conservatism is all about, the remaining "libertarian-conservatives" do as I and many of my fellows have over the last eight years—leave and join a movement that is dedicated to unhyphenated freedom.

Robert M. Dugger
Apache Junction, AZ

Vested Virtue

Robert James Lee's reply (Apr.) to George Will is welcome, of course, but it raises a quite different question from the one it addresses. This is whether Mr. Will is really worth replying to. There are certain people, Galbraith on the left and lesser-known individuals on the right—for example, Sen. John P. East, Gerhart Neimeyer, Stephen Tonsor—who simply won't pay attention to facts regardless of how often one hammers away with them. George Will is becoming one of these people. They seem to be so convinced of their virtue that they are totally blind to self-criticism and the suggestion from others that they might reconsider their views.

In Will's case, for example, there seems to be no hope whatsoever of having him admit that there are defenses of the fully free society that rest every bit as much on moral considerations as do his political views. He keeps on making it appear in his writings that morality favors only his politics and that every detractor is some kind of barbarian, not worth listening to. This way, of course, Will spares himself the trouble of having to test his moral views against anything. After all, who would expect anything worthwhile from barbarians! Their arguments must be beside the point, mustn't they?

Instead of concentrating on trying to reach people such as George Will, what seems to be needed is every effort to scale similar heights in journalism. Those who realize that the argument is between different moral positions, not between the moral among us and the lowly barbarians, as seen by Will, must practice the eternal vigilance required to reach the sort of prominence that Will and his cohorts have managed to reach. And remember, in a world known for massive corruption and lack of good will, it is not surprising that George Will and his sort are more welcome in the powerful institutions than are Mr. Lee and other people who are fair-minded in their journalistic endeavors.

Tibor R. Machan
Senior Editor

Antitrust Allegations

The April REASON includes on page 14 (Trends) a paragraph concerning my alleged public turnabout on antitrust. The paragraph has an unreasonably high density of errors per line.

I was not chief economist of the Federal Trade Commission in 1971. Indeed, the position of chief economist does not exist. I *was* director of the FTC's Bureau of Economics from 1974 to 1976. The estimate of monopoly loss, with its alleged relationship to antitrust, came out in a book I published in 1970. I say

(Continued on p. 66.)

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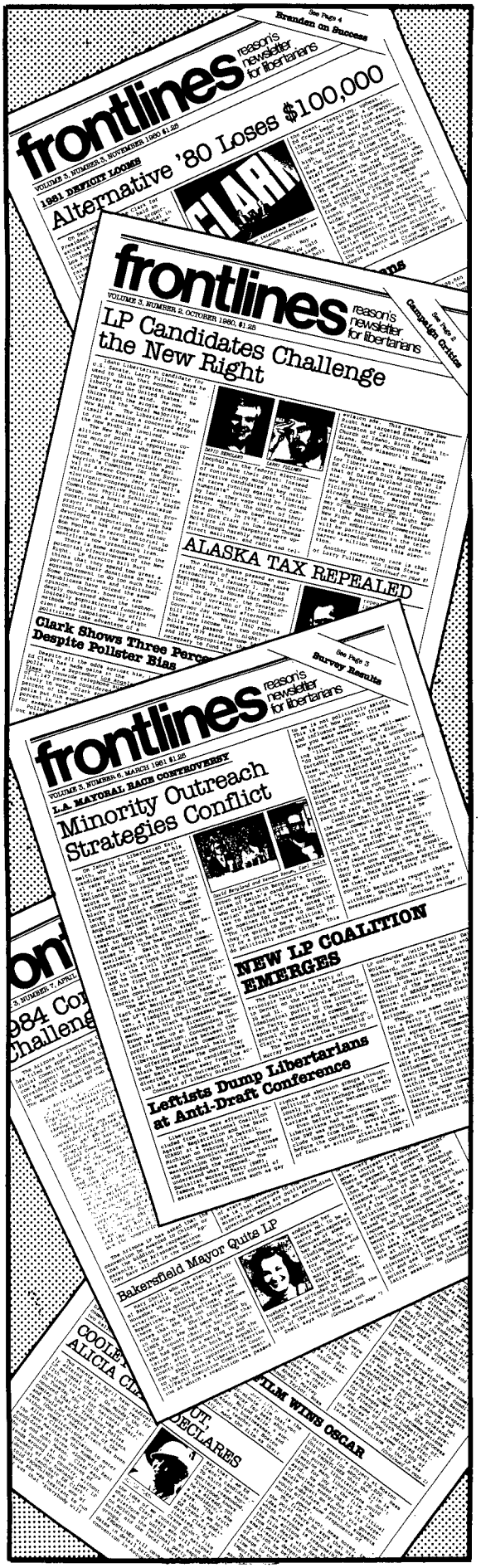
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brickbats

☐ **Farsighted, broad-minded,** and deep-thinking actress Joan Hackett has hosted a Hollywood gala that could very well signal the dawning of an entirely new way of life for every single one of us—or, at the very least, a new government program to study a new way of life for every one of us. The scientifically inclined Ms. Hackett was the hostess of a "solar celebration" at her fashionable hill-top home recently, where enough stars were in orbit to power Skylab II. The celebs pigged out on zucchini, toast, and quiche—all browned, of course, in solar-ignited ovens. With the help of a government-subsidized Solar Lobby, the gathered solarities were discussing their strategy for getting American citizens to voluntarily pay several times as much money for energy production. The group, in addition to eating quiche with actresses, promotes their philosophy of radiation-worship mostly through meetings with writers of game shows and by appearing on academic panels hosted by TV personality Mike Douglas. "Movie stars and celebrities can get people to investigate technology," observed solar-promoter Ty Braswell. And that is exactly what Pam Dawber, star of the popular sit-com *Mork and Mindy,* aims to do. "It's so damn obvious," said the formerly sighted actress while looking at the sun. "And we're not using it." Thank you, Mindy, for bringing the sun to our attention.

☐ **A new federally funded** study for the National Center for Education Statistics (a franchise of the Department of Education) reveals that "Catholic and other private high schools provide a better education than public ones do, and in some respects are less racially segregated." The research was conducted by the eminent James S. Coleman, a University of Chicago sociologist whose earlier work was used by federal courts to justify orders for mandatory school busing to achieve racial integration. "The evidence," claims Coleman today, "is that private schools do produce better cognitive outcomes than public schools. When family background factors that predict achievement are controlled, students in Catholic and other private schools are shown to achieve at a higher level than public-school students." The Coleman report was instantly attacked by many scholars who work for the public schools—or sell them studies on a commission basis.

☐ **Reba Malamud,** what kind of thoughtless person are you, anyway? You may have a big heart in continuing to work at age 66 and supporting your son who is 40 years old and suffers from irreversible brain damage. But, selling candy, tobacco, and newspapers? It might be *your* road to riches, but think about the disadvantaged.

Well, it's good to know *somebody* does. Because that spot taken up in that Michigan-owned Detroit office building will soon be taken by a more worthy individual: the state of Michigan has evicted Reba Malamud as of July 31, 1981. State law prohibits her profiteering in such a way, for Ms. Malamud is *not blind.* So you can go poke your eyes out, Reba, but you'll just have to reap your monopoly profits elsewhere until you do. Because *somebody* cares about the less fortunate. Justice is blind—but *you're not.*

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☐ **An alarming statistic** has been uncovered in the recent crime epidemic: "65% of young women in this country own guns and keep them in their households," according to the women's publication *Glamour.* No comment (just a warning).

☐ **Those crafty little devils** in the IRS enforcement division have nabbed yet another innocent American citizen. James L. Coburn, of Chicago, Illinois, was pinned with a $15,000 fine and three years' probation by the taxacrats—and only his advanced age (70 years) precluded sterner measures. The trouble for this American patriot began in 1977, when the then 66-year-old Mr. Coburn filed his first income tax return. He was soon investigated for a file-cabinet full of violations and convicted of understating his income by $81,000 during the 1974-76 epoch. But Coburn may get the last smile, for his income was easily several multiples of such a sum, his employment being of the most rewarding sort. Jimmy Coburn was "assistant state's attorney" for Cook County, prosecuting criminal tax fraud.

☐ **Criminal behavior** plagues still another American institution: the US Postal Service. In an embarrassing blow to post office professionals, Mr. Robert Handelsman (27 years of "service") was busted in New York City for taking payoffs to speed mail deliveries. A federal court heard all about the bribes from such corporate customers as Westinghouse Broadcasting, Revere Copper, and the law firm Dreyer and Traub. The practice is highly illegal, and authorities quickly stepped in to eliminate the extortion and freeze delivery time to its normal pace.

—Thomas W. Hazlett

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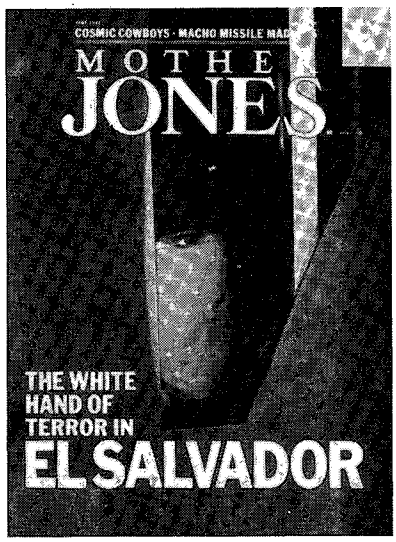

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trends

Econometrics under Fire

Q: What set of companies grosses $100 million a year giving people wrong advice?

A: The purveyors of econometric models.

How can this be, you ask? What the econometric firms offer, of course, is to forecast the behavior of the entire economy. When inflation was three or four percent a year and GNP increased fairly steadily, it wasn't hard to throw a few thousand equations into the computer representing the continuation of historical relationships and come out with something not too far off the mark. Whether the result was actually a *forecast,* of course, is another question.

Today, however, with inflation and taxes at record levels and all sorts of incentive and disincentive effects at work in people's decisions, using historical data to make forecasts isn't working at all. In the four quarters of 1980, the big three econometric models were dramatically wrong all four times: in the first quarter their average GNP growth rate forecast was a negative 4.3 percent; actual GNP *increased* 3.1 percent. For the second quarter they predicted a 2.0 percent drop; the actual decline was 9.9 percent. By the third quarter they forecast 1.1 percent growth, but reality was out there at more than double—2.4 percent. In their fourth-quarter pick of 2.7 they came closer—slightly. The actual growth was 4.0 percent.

Given such dismal performance, it has now become fashionable to state the obvious about the limitations of such forecasting, as *Business Week* did in its March 30 issue. Besides being tied to possibly irrelevant historical data, the forecasts of these supposedly objective, scientific models "also are largely judgmental." You read that right! "In practice, a model that is run mechanically generally produces poor forecasts and is brought back to reality largely by *judicious manipulation* of equations" (emphasis added). At last, the truth is out! "To be sure," notes *Business Week,* "the model builders do not deny that they tinker."

All of which reminds us of the criticisms of econometrics long raised by the Austrian school of economics—namely, that the subject of economics is individual human action, motivated by individual value judgments; that the salient characteristic of a free or semi-free economy is *change,* not "equilibrium"; and, consequently, that a study of historical relationships among actors in the economy can't be expected to be of much use in projecting what the future will be like. We hate to say "We told you so," but....

Defense—without Bankruptcy

Amidst the rush to increase the US defense budget, many sober voices are being raised. Generally, they are pointing out that more is not necessarily better, that the Pentagon has the same—or worse—money-wasting proclivities as any other bureaucracy, and that tens of billions of dollars could be saved each year by changing the way the Pentagon does business.

One list of such changes was released in February by the General Accounting Office. Outgoing Comptroller General Elmer B. Staats listed 15 major areas where such savings could be made—for example, consolidating duplicate maintenance facilities of nearby army, navy, air force, and marine bases. The "absolute minimum" savings from the 15 changes would be $4 billion a year; other GAO recommendations could increase the annual savings to $10 billion, says Staats.

A private organization, the Committee on National Security, has come up with a $32 billion list—enough savings, columnist Jack Anderson has pointed out, "to absorb [Defense Secretary] Weinberger's entire budget increase, with money left over to buy a few F-15s or nuclear submarines." Using data from the Republican Study Committee and GAO, the group identified a number of changes that could each save $1 billion a year or more by eliminating wasteful practices and using more businesslike procedures.

The Heritage Foundation has also examined defense economics. Among its recommendations are that US allies—NATO members and Japan—pay a greater share of the cost of maintaining US forces overseas, that the military retirement system—which allows retirement after only 20 years and "double-dipping"—be reformed (potential savings: up to $4 billion annually), that procurement be done on a multiyear basis and with multiple contractors, and that US general-purpose forces be restructured for greater flexibility and maneuverability, potentially saving billions.

The general theses (1) that the US military has become overly dependent on costly, complex, hard-to-repair, and not very combat-suitable technology, (2) that Pentagon-industry relationships have become far too cozy, thereby greatly escalating weapons systems costs, and (3) that we need to move away from Maginot Line-style dependence on massive systems with overwhelming firepower and toward larger numbers of more flexible, lower-cost weapons systems—these ideas are being worked out by a loose-knit group of military reformers whose membership cuts across liberal/conservative lines. Among the books incorporating these views are Jacques Gansler's *The Defense Industry* (MIT Press, 1980) and James Fallows's *National Defense* (Random House, 1981). Both liberal Sen. Gary Hart (D-Colo.) and conservative Rep. Newt Gingrich (R-Ga.) are advocates of these views.

All in all, the new defense critics are a welcome change from the sterile alternatives of "give the Pentagon whatever it wants" and "oppose any military spending request."

Cutting Back the Credit Trough

If you thought the federal deficit for fiscal 1980 was the $59.6 billion reported by the government, guess again. *Total* federal government borrowing in the credit markets last year was $124.4 billion—over 35 percent of all borrowing by everyone. What accounts for the invisible half of the true deficit is "off-budget agencies" such as the Federal Financing Bank (which purchases the obligations of such subsidized lenders as the Export-Import Bank, the Farmers Home Administration, and Tennessee Valley Authority) and "government-sponsored enterprises" like the Student Loan Marketing Association and the Federal Home Loan Mortgage Corporation.

Direct federal loans and loan guarantees outstanding have soared from under $200 billion in 1970 to over $800 billion

today. And new commitments have been increasing at between $100 billion and $150 billion per year. As economist Murray Weidenbaum points out, such government credit is no free lunch. Government programs don't *create* credit, they just spread it around, taking funds out of the private credit markets and allocating them to politically favored recipients. "Government loans and loan guarantees are nothing more than an elaborate shell game in which only a few people or companies win," wrote Weidenbaum last winter. "The rest of us are losers."

But now at last there are efforts under way to cut back on these credit subsidies. Office of Management and Budget Director David Stockman has proposed to chop $13.6 billion from the Carter administration's credit budget for fiscal 1981 and $21 billion from the fiscal 1982 budget. That would bring new 1982 federal loans and loan guarantees "down" to $128 billion—still a huge amount, but a dramatic reversal of the trend.

Among the specific cuts urged by OMB are a 20 percent reduction of the Federal Housing Administration's $40 billion mortgage guarantee program; elimination of the loan-making Economic Development Administration ($300 million/year), of the National Consumer Cooperative Bank ($130 million/year), and of the business and industrial loans of the Farmers Home Administration; and cuts in loans for merchant ship construction, loan guarantees for alcohol stills, and loans by the Small Business Administration and Export-Import Bank.

One cut being made administratively concerns government loans for college students. Since the program was made available to everyone, regardless of financial need, costs have soared, reaching $5 billion a year at present. Today, one out of every three college students participates, compared with one in seven a decade ago. Starting July 1, however, students will have to start paying the subsidized (nine percent) interest charges while they are in school, instead of having the government pay the interest until six months after graduation. In addition, it will be back to the old criteria by which parental income and support are included in figuring eligibility. These changes are expected to save $2 billion over the next five years.

Besides cutting back on subsidized credit, the other need is to make sure that the recipients pay back what they borrow. The General Accounting office points out that about $25 billion of the $139 billion owed to the feds by Americans (and $52 billion owed by foreigners) is delinquent. A bill by Sens. Charles Percy (R-Ill.) and James Sasser (D-Tenn.) would permit the government to report the names of delinquent debtors to credit bureaus, which—amazingly enough—is not presently done.

Another provision would allow the government to garnishee up to half the wages of its own employees who are delinquent debtors to Uncle Sam. Some 18,000 federal employees have defaulted on their student loans but go merrily about their way receiving federal paychecks; likewise, thousands of veterans are delinquent on their VA loans. In addition, Att. Gen. William French Smith announced in April that the government will now allow federal agencies to hire private collection firms to go after the deadbeats.

OTRAG Revisited

When the Soviet Union and East Germany cranked up a propaganda campaign in 1978 to try to discredit an in-

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■ Do you know any left-wing conservatives or right-wing liberals? Chances are you do, according to Robert Pielke, who proposes a novel system for classifying political leanings.

■ What happens when a prominent philosopher teams up with a Nobel Prize-winning neurophysiologist to write a book about the self and the brain? Among other things, Descartes's famous "ghost in the machine" makes a comeback. John Gray explains how in his review.

■ Acting in one's self-interest requires seeking one's own happiness, but happiness cannot be attained if pursued for its own sake. This and other arguments against various forms of egoism are analyzed in Edward Regis, Jr.'s look at a recent book on self-love.

■ The neurosciences have shown that the structure of our nervous system determines what we are visually aware of. A blow to freedom? On the contrary, argues Thomas Russman, who also discusses the now-popular view that scientific observations are theory-laden, not objectively based.

■ Karl Marx was not from the working class, and there are socialist millionaires. Does this square with the Marxist view that our ideologies arise inevitably from our economic class? James Rolf Edwards discusses this paradox of determinism.

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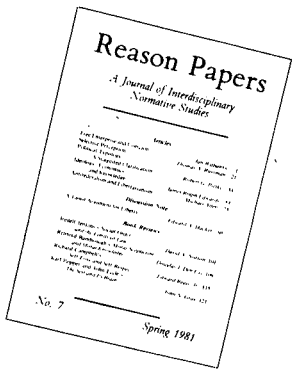

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novative West German rocket-development firm, REASON provided an in-depth refutation of the charges (see "Rockets in Africa," July 1978). Briefly, the contention was that the firm—OTRAG—was actually developing cruise missiles rather than, as it claimed, low-cost satellite launchers. No evidence for the Soviet view was ever presented, but political pressures led the West German government to get OTRAG to terminate its contract for a launch site in Zaire.

REASON has followed the firm's progress since then, including its relocation to a base at the Seba Oasis in the Libyan Sahara Desert last year. On March 1 OTRAG made its first test launch from Libya—its fourth developmental launch—and announced two more launches for 1981, with the first satellite launch scheduled for next year (*Aviation Week*, Mar. 23). But then, on March 20, came the NBC bombshell.

NBC Magazine on that date broadcast a report on OTRAG charging that the company has offered to sell ballistic missiles to Syria, Saudia Arabia, and Pakistan. As evidence, NBC showed memos allegedly documenting meetings and deals for such projects, none of which came to fruition. When confronted with copies of the memos, OTRAG president Frank K. Wukasch angrily denied that such meetings had taken place and claimed that the memos must be fabrications. The only corroboration NBC provided was confirmation from A.E.G. Telefunken Chairman Heinz Duher that a meeting which included representatives of Telefunken, another company, OTRAG, and Saudia Arabia did take place and that sale of OTRAG missiles to Saudia Arabia was discussed.

NBC reporter Garrick Utley came away convinced that OTRAG is in the ballistic missile business. We have to admit that that may be the case—although NBC's evidence is hardly conclusive. This could be another, more sophisticated disinformation campaign—or it could be the truth. The answer, as they say, remains to be seen.

Free World PR Committee Formed

A group of 400 men and women have organized the Committee for the Free World to defend "the values, the achievements, and the institutions of Western civilization." In a statement released in February, the committee vowed to wage this battle "in the world of ideas." Accordingly, most of the members of the group are intellectuals, writers, publishers, and the like, with neoconservative leader Midge Decter (formerly of Basic Books) as executive director, $125,000 pledged in start-up money, and offices in both New York and London. Other members include international chairman Raymond Aron, Leopold Labedz, Saul Bellow, Jeane Kirkpatrick (the new US ambassador to the United Nations), Norman Podhoretz, George Will, Tom Stoppard, A. Lawrence Chickering, David Brudnoy, Edith Efron, and Thomas Sowell.

The committee warns of the "rising menace of totalitarianism" and of Soviet expansionism. Decter said it would sponsor conferences in the United States and abroad, monitor news reports, and publish a monthly bulletin. The statement emphasized that the "struggle for freedom may in the end be won or lost not on battlefields but in books, newspapers, broadcasts, classrooms, and in all public institutions where the determination to remain free is enhanced or undermined."

What Price Rail Regulation?

Does regulation really make much difference to the operation of railroads? Questions of this sort are difficult to answer definitively because of the absence of side-by-side comparisons of controlled and uncontrolled conditions. Yet it turns out that such a comparison—and a dramatic one, at that—has been staring us in the face for over two decades: the United States versus Canada.

In 1956 the Canadian government granted considerable pricing freedom to that country's railroads. And its National Transportation Act of 1967 further deregulated Canadian rails. US railroads, by contrast, have remained largely under the Interstate Commerce Commission's thumb during this time period. This natural experiment suggested itself for detailed study to three economists: Douglas Caves and Laurits Christensen of the University of Wisconsin and Joseph Swanson of Northwestern. Their findings appear in the January/February issue of *Regulation*.

As a measure of overall economic performance, the economists looked at total productivity—revenue ton miles carried for a given expenditure. Since Canada has a harsh climate, they expected productivity there to be lower; in addition, Canadian railroads are required by law to haul at a loss grain and flour destined for export. Productivity was, indeed, lower for Canadian railroads in 1956; at that point US railroads' average productivity level was 24 percent higher than that of Canadian railroads. But after nearly two decades of Canadian deregulation, during which Canadian railroad productivity growth *averaged* 3.3 percent annually, while that of US railroads averaged a dismal 0.5 percent per year, the picture reversed completely. By 1974 US railroads were only 82 percent as productive as Canadian ones; even well-managed US roads like the Santa Fe and Southern Pacific were only 81 percent and 94 percent as productive as the Canadian Pacific, respectively.

Why has Canadian performance been so superior? "The evidence strongly suggests that the answer is the greater regulatory freedom in Canada," say the economists. Canadian freight cars are moved around to where they are most needed and make fewer empty return trips, all because of largely free-market pricing. As a result, Canadian railroads have been able to handle large increases in traffic without having to add large numbers of cars—in marked contrast to US railroads.

We're paying a heavy price for continued rail regulation—$6.7 billion in 1974 alone, according to Caves, Christensen, and Swanson. Eliminating that kind of waste would make us all better off.

In Housing, Time Is Money

How much does government red tape drive up the cost of housing? And what can be done to reduce that red tape? Those were the questions a recent research project set out to answer. Conducted by the federal Department of Housing and Urban Development, it involved demonstration projects in three locations: Shreveport, Louisiana; Hayward, California; and Allegheny County, Pennsylvania.

In each case developers and builders were asked how they would *like* to build, with the aim of holding down costs. And local governments were asked to approve minor deviations from zoning ordinances; subdivision regulations, and building codes. Costs of the completed projects were then compared with what comparable projects would have cost under normal red-tape conditions.

The results were dramatic. In Shreveport the cost of innercity townhouses was cut by 21 percent; in Allegheny

County single-family homes were built for 24 percent less; and in Hayward the cost of a 58-unit townhouse was cut by 33 percent.

What accounted for these savings? In the Shreveport project, half of the savings resulted from a doubling of the normally allowed density—from 9 units per acre to 18. A small amount came from relaxing building code requirements on such matters as window area, use of plastic pipe, etc. But the remainder of the savings came from having cut the total approval-and-construction cycle to just *five months* instead of the usual 12 to 18 months. And on the other two projects, similar cuts in time were responsible for the *majority* of the savings. The point is simply that, the longer a developer's or builder's capital is tied up in the project because of regulatory delays, the more he ends up paying in interest on that capital. And that expense gets factored into the price charged for the housing.

These results are well documented in HUD's report, "Housing Cost Reduction Demonstration." As far as HUD's analysts are concerned, the cost savings "can be duplicated in most communities in the United States." When even a federal bureaucracy is showing how to slash red tape, it's about time local governments got their act together and did likewise.

Dancing for (Nongovernment) Dollars

There has been quite a bit of fluster and flummery over Reagan's planned cutbacks in the area of arts subsidies by some 50 percent for both the National Endowment for the Arts and the National Endowment for the Humanities (Trends, Mar.). And for those of us who appreciate flights of fancy, the concern may be understandable. But let's look at the facts: Will government subsidy cutbacks really result in a cultural vacuum?

According to the Mobil Corporation, itself a substantial contributor to the arts, art organizations raise an average 55 percent of their funds from ticket sales and subscriptions. Individual contributions make up another 33 percent, business contributions 6 percent, private foundations 1 percent, and state and local governments 3 percent. Federal subsidies make up the last bit, a mere 2 percent from the NEA and the NEH. With that total, one wonders just how much of NEA's $159 million this fiscal year goes to the artists—and how much to bureaucrats and administrators.

The Fusion Dance Company in Miami, Florida, is one organization that used to be funded almost entirely from government grants. In 1974, Wally Lord began the dance company and struggled along for several years. Four years ago, Fusion hit the jackpot: a $200,000 federal arts grant, amounting to four-fifths of its total annual projected budget. "Right away it made us feel fat," Lord recalls, "it gave us a phony feeling of security." Lord says the grant served as a disincentive for Fusion's board to go out and raise money from other sources. Realizing the danger, the staff quickly decided to wean the group from such substantial government grants. "We don't depend on them, we don't budget them into our plans," says Lord, noting that bureaucrats may in fact promise a grant and then change their minds when it's too late to go elsewhere.

Fusion's board is committed to raising $250,000 a year; this year it raised all but $30,000 of that amount. Lord stresses that it hasn't been easy, especially when things get tight at the end of the year. "There is no magical answer," he says ruefully.

But having to raise funds for the company has given Lord a measure of business savvy. He realizes the value of

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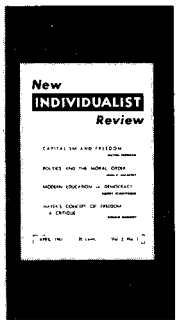

New Individualist Review

A Liberty*Press* Periodical Reprint

With a new Introduction by Milton Friedman

The *New Individualist Review* was published at the University of Chicago from 1961 to 1968. It published articles by an unusually distinguished group of contributors, including F. A. Hayek, William F. Buckley, Jr., Milton Friedman, and Ludwig von Mises.

While most of the contributors shared a dedication to individualism and a dislike for collectivist ideas in any form, they presented a variety of viewpoints on many issues. Thus, controversy runs throughout almost every issue of the journal.

This reprint edition includes all 17 issues of *New Individualist Review* together with Dr. Friedman's new Introduction and a cumulative index. Hardcover $12.00, not available in paperback.

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marketing his product. "Having a good product is not enough," he has learned. "The bottom line to success is having an exciting social event that people will want to come to, to contribute to." Things are going well enough for Fusion that Lord is planning a national tour in about two years.

Any bureaucratically determined distribution of art support, one might add, is playing with fire. First, it may serve to set up false competition for the really *good* companies and artists by subsidizing the untalented ones. And then, that very necessity to be selective in an area that is so attuned to individual tastes means that some people's preferences will always be given short shrift. Thank heavens (we say) our tax dollars today are not responsible for the survival of such punk rock groups as the Plasmatics (they're the ones who chop up a live television on stage with an axe). But—funny thing about political money—it could be different tomorrow.

Private vs. Public Education

In mid-April, prominent sociologist James Coleman released a new report on public and private schools based on a survey of 58,728 students in 1,016 high schools. His major conclusion: that even after allowing for differences in family background, private schools turn out better-educated students than public schools do. In reading, vocabulary, mathematics, science, civics, and writing, Coleman found, the 1.4 million private students do better than the 13.5 million public students. The reason? Coleman concluded that private schools maintain better discipline and provide more exacting academic demands.

Coleman also said that "the constraints imposed on schools in the public sector... seem to impair their functioning as educational institutions, without providing the more egalitarian outcomes that are one of the goals of public schooling." The report was prepared for the Department of Education and, as Diane Ravitch wrote in the *Washington Post*, "shows that on the whole, public schools have lowered their requirements, decreased their expectations, made basic courses optional and learned to tolerate intolerable behavior."

Coleman's conclusions are suspect to some because of his reputed support of educational tax credits. Indeed, his results come in at a politically opportune time. Sens. Patrick Moynihan (D-N.Y.) and Robert Packwood (R-Ore.) have reintroduced their tax credit bill in the current session of Congress. The bill would grant credits covering half of tuition and fees (up to $500 a year) for pupils in private elementary and secondary schools and for students in public or private colleges. For low-income families whose total tax bill is less than $500, the bill would provide cash instead of credits. A worrisome aspect for some: the Treasury would take in from $2 to $4 billion less in the first year.

Europe's Private Broadcasters

Dull, ponderous television programs on government networks in France, West Germany, the Netherlands, and Italy are fast losing their formerly captive audiences to private competition. The French and West German governments may be the first of some half a dozen European states to loosen their stranglehold on broadcasting to programming beamed via satellite from the Compagnie Luxembourgeoise de Telediffusion (CLT) in Luxembourg.

CLT, the biggest commercial broadcasting operation in Europe, is setting up a consortium for the venture that, much to the dismay of German Chancellor Helmut Schmidt, will include the Association of German Newspaper Publishers. Schmidt seems to dislike television per se; among other indications, he has blocked federal attempts to link German cities via cable.

The satellite project would broadcast three channels simultaneously in French, German, Dutch, and English. CLT has already put down deposits with NASA and the European Space Agency to reserve launch spots on the Shuttle and the Ariane boosters, respectively. Customers will merely need to buy a small-dish antenna and adapter at about $400 to receive the signals.

The situation in the Netherlands is somewhat different because that country has an unusually high number of cable systems—some 60 percent of all homes are hooked up to local cable systems. Because of the existence of cable, pirate broadcasters are transmitting such light fare as westerns and comedy serials into cable systems after the government shows go off the air at midnight. Pirate broadcasters are also able to broadcast commercials; under Dutch law the broadcasting of a commercial does not prove that it was ordered and paid for, so all the businessman has to do is deny that he bought commercial time. In addition to the television broadcast pirates, there are over 10,000 radio pirates reputedly operating in the Netherlands, transmitting basically pop music.

Meanwhile, Italy's state monopoly, Radiotelevisione Italiana (RAI), is facing competition from some 600 local television stations. These stations are legal under a 1975 court ruling, although they cannot broadcast nationally. They are beginning to offer better-quality fare, including films and documentaries imported from abroad, which worries RAI officials. RAI has been criticized for offering too many dull political discussions and documentaries and not enough popular fare. Unfortunately, Minister of Posts Michele de Giesi has announced that legislation to control the number of private stations allowed to operate will be introduced in parliament soon.

Space Savings

Does the Space Shuttle have to be paid for by taxes? Not at all. Besides charging those who use it to launch satellites, NASA (or a private shuttle operator) could raise revenues in several other ways.

New West Contributing Editor Tom DeVries wrote in the *Los Angeles Times* that a good way to rekindle American enthusiasm for the space program would be to set up a lottery offering a seat on the Shuttle as the grand prize. (We reported a similar idea from Jeff Vale of the L-5 Society in this department in December.) DeVries figures that if the tickets are pretty enough, people will throw in $10 for their souvenir value alone. NASA would need to sell only 6,000 tickets at $10 each to cover the cost of sending 200 pounds into space (a 180-pound person plus camera and other tourist accouterments), and he's positive millions of people would participate.

On another front, advertising salesman Bob Lorsch is advocating the sale of Shuttle advertising space. Lorsch proposes to sell small plaques for $1 million apiece to some 50 companies, each bearing a "tasteful" message that would be beamed back to earth for 30 seconds during future Shuttle flights. Lorsch plans, of course, to have his company act as advertising manager for the plan.

Whatever the merits of these particular proposals, it is enlightening to note that they at least are revenue-producing ideas—a principle NASA would, naturally, look down its nose at, but which keeps the rest of the world going around.

Regulatory Review in California

In its first six months of existence, the new California Office of Administrative Law (OAL) rejected, on one ground or another, one-fifth of all proposed new state regulations. That isn't much, considering the miasma of overregulation surrounding us, but it is at least a start.

OAL was set up by the legislature to stem the "unprecedented growth in the number of administrative regulations in recent years" by reviewing all new regulations issued by state agencies before finalization to check: "(a) Necessity. (b) Authority. (c) Clarity. (d) Consistency [with existing laws]." OAL will also review all existing regulations for revision or rejection over the next six years, subject to governor veto except in the case of "emergency" regulations.

Agencies are also free to repeal regulations on their own, but they must get OAL approval to add or amend regulations. Best of all, state agencies must reimburse OAL for the cost of its review services. OAL's enabling legislation further forbids state agencies from taking it to court. The only fly in the OAL ointment is a provision that it not "substitute its judgment for that of the rulemaking agency as expressed in the substantive content of adopted regulations," a self-contradictory jumble of words if we ever heard one.

It will be interesting to see whether a government agency can, despite its own nature, cure overregulation without the medicine being worse than the disease.

Private Protection Proliferates

Various agencies of the federal government have recently turned to private contractors to perform services formerly provided by government employees or not at all.

The Federal Protective Service, for instance, is being cut back from 2,300 officers to 600 and is turning over the remainder of its protection services to private guards. About 3,700 private guards already look out for half of all federal property, compared with 107 private guards covering only three percent of federal property in 1960.

At the Kennedy Space Center at Cape Canaveral, Florida, a private team of war veterans and ex-policemen guards the 144,000-acre area housing, among other things, the Space Shuttle. The guards are employees of Wackenhut Services, Inc., and were initially hired to offset any terrorist threats. They have extensive special weapons and tactics (SWAT) experience, and, noted one reporter, can be quite sobering in appearance, what with their paratrooper boots, jungle camouflage suits, mirrored sunglasses, and automatic weapons.

Meanwhile, the US Navy continues to turn to private contractors for the maintenance related to its business-flying and for operational and pilot support in noncombat missions. The Navy's switchover is based not only on satisfaction with private contractors' performances in the past but also on a shortage of trained personnel and on long-term cost savings. Flight International of Atlanta, Georgia, has taken over utility missions since October, with 30 pilots providing training aid in more cost-efficient aircraft than the navy had used. The navy is also using civilian pilot instructors. Enlisted navy personnel have been released from the work that is now being handled by private contractors to cover more specialized duties.

Spirited Deregulation

So far only good news has surfaced over the deregulation of wine and liquor prices in California, New York, and New Jersey. Recent reports on New Jersey's deregulation, in particular, demonstrate substantial savings to the consumer.

Until last year, New Jersey's Alcoholic Beverage Control board (ABC) had set minimum price levels and disallowed such things as quantity discounts, except to restaurants. Wine was marked up by 50 percent, liquor by 30 percent, and beer and soft drinks by 25 percent. After deregulation, certain stores have dramatically cut their markups; in one Clifton, New Jersey store, wine is now marked up by only 25 percent and other products by 20 percent. Volume at that store has doubled, although the store owner only gets half of the profit margin that he had under regulation. Ironically, it is the ABC board that is staunchly defending deregulation before a group of store owners lobbying for a return to controls. Because of the landmark 1980 US Supreme Court decision striking down wine-price controls in California, it seems that the ABC need not worry.

In New York, the magazine *Cooking for Profit* recently noted, competition has also drastically lowered some wine prices. Soave Bolla, for example, which wholesaled at $3.13 at the time of the article, had been given a minimum "fair trade" price of $4.69; it sold at sale prices of $3.23 after deregulation.

"The point," wrote columnist Rosenthal in that magazine, "is that bureaucrats have no more business interfering in the wine market than they would have interfering in grocery or restaurant prices." Well said!

Progressives Lose 2, Win 1

The advocates of "economic democracy" in local housing markets (see "Socialism: On the Street Where You Live," Apr.) strengthened their hold on Santa Monica, California, in April but lost big in two other California cities.

Most surprising was the progressives' loss of control in Berkeley. In what UPI called a "stunning election defeat," leftists of Berkeley Citizens Action lost all four of the city council seats at stake to "moderates." The latter now have a 5-to-4 council majority. The future of Berkeley's rent control ordinance was an important campaign issue, but whether the moderates will try to repeal it or simply water it down remains to be seen.

Meanwhile, a measure proposing stringent Santa Monica-style rent control and a virtual ban on condominium conversions was crushed at the polls in Pasadena. Opponents of the measure garnered 70.7 percent of the votes after a hard-fought campaign, despite the fact that tenants make up 55 percent of the city's residents.

The left's only victory occurred in Santa Monica, home of the nation's toughest rent control law. There, a slate of progressives organized by Derek Shearer and backed by Tom Hayden's Campaign for Economic Democracy swept the city council election, winning all four open seats and giving them a 5-to-2 council majority. At their first postelection council meeting, the new majority enacted an emergency ordinance clamping further controls on the city's beleaguered housing market. The measure bans all new high-rise construction and condominium projects for six months.

Meanwhile, pressure against rent control at the federal level continues to build. Seconding the recommendations of three national study groups (see Trends, Feb.) is Sen. William Proxmire (D-Wisc.), who now favors withholding federal housing grants from all rent-controlled cities. "Rent control is futile, counterproductive, and results in less rental opportunities," says Proxmire.

San Diego Mayor Pete Wilson says he thinks rent control is such a serious matter that it justifies federal preemption, despite President Reagan's inclination toward local control.

Patent Legitimacy

A US Court of Appeals has ruled that Xerox Corporation's acquisition of basic copier patents in 1956 did not violate antitrust laws, as charged by SCM Corporation in 1973. Lawful acquisition of the patent entitled Xerox to hold that patent for 17 years without the obligation to license it to others. Even if Xerox anticipated dominating the copier market it was creating, the court ruled, that was insufficient evidence to prove restraint of trade, lessening of competition, or monopoly building.

An earlier court had found in 1978 that Xerox had restrained trade and tended to create a monopoly, awarding SCM damages in the amount of $37.1 million (automatically trebled to $111.3 million). In 1979, US District Court Judge Jon Newman threw out the damage verdict on the grounds that antitrust laws do not permit monetary awards under the circumstances of the case. The most recent decision reiterated that Xerox had lawfully acquired the patents when no market existed for copiers.

Energy Outlook

Despite our disappointment over the Reagan administration's failure to abolish the Department of Energy, as had been promised, a few crumbs do offer some consolation. For one, the administration has announced that public buildings no longer have to set their thermostats at federally mandated temperatures—burying forever, we hope, the spectre of an Energy Police Corps.

The administration has also said that it is dropping Carter administration conservation plans, which included: odd-even gasoline sales, shortened work weeks, and carless days. Mandatory energy-efficiency standards for major home appliances were also set aside as "unwarranted government intrusion into the marketplace," the administration said. The standards, proposed by DOE last year, would have cost manufacturers and consumers between $317 and $443 million a year, the DOE itself estimated. The DOE had also noted that those standards could have put some small manufacturers out of business.

Energy Secretary James Edwards vowed too that future gasoline prices will not be controlled. In addition, he said that the government will not allocate gasoline supplies except in a "severe, critical shortage." Edwards said that the long gasoline lines during past fuel shortages were in fact caused by the lack of a free market. In any future cutoff, he stressed, "I would let the market run free....Private sector forces...can allocate better than any of us here in Washington can do."

Peru, Argentina: Cautious Capitalists

The new government of Peru has joined the ranks of those attempting to reinstate the marketplace, inspired by University of Chicago-style economics. Peru's first civilian government in 12 years, led by President Fernando Belaunde, was elected in July 1980 and is having to find a way to decrease a 60 percent inflation rate, cut its deficit, and revive overprotected, previously nationalized industries.

Belaunde is being assisted by a team of American-educated technocrats who "want to circumscribe the role of the state to the minimum necessary to the efficient operation of the economy," as Vice-Minister of Economy (and University of Chicago graduate) Sergio Malaga puts it. The government has therefore abolished food and gasoline subsidies, raised interest rates and cut import tariffs and expects to scrap a 17.5 percent sales tax on domestic and import sales. It is also trying to attract foreign investors by offering hefty tax credits.

After his reelection (Belaunde was the president ousted by a coup led by Marxist generals in 1968), one of Belaunde's first acts was to return government-seized newspapers to their former owners. Things are not going too well for the president, however, since the prices of consumer goods, formerly held down by political fiat, have risen dramatically. Furthermore, Belaunde does not intend to return certain "important" expropriated facilities, such as oil wells and refineries now maintained by Petroperu and sugar estates.

That very refusal to depoliticize certain State-owned industries is thwarting another supposed attempt at a free-market economy, this one in Argentina. For five years, Economy Minister Jose Martinez de Hoz, who retired in late March, had tried to reshape decades of Peronist fascism. He did manage to bring inflation down from over 176 percent in 1977 to 88 percent in 1980, but he did this mainly by raising taxes and streamlining collections. What he could not do, unfortunately, was reduce the subsidies to industries run by members of the military government. These military men insist that their production is of crucial importance to "national security"—that old catch-all sanction—and therefore untouchable.

A new military government led by a General Roberto Viola has named an obscure economist, Lorenzo Sigaut, the new economy minister. Things don't look very promising on the Argentinian front.

Milestones

• *Castro Cold-Shouldered.* In March, Colombian President Julio Turbay Ayala announced that he was severing diplomatic relations with Cuba because its government continued to interfere in Colombia's internal affairs—most recently via an attempted uprising several days before by a group of 100 Cuban-trained guerrillas. Two days later, the Panamanian government said that it, too, was reconsidering relations with Cuba. That same day, five Costa Rican pilots told a legislative assembly commission that they had ferried arms originating from several countries, including Cuba, to Sandinista (Nicaragua) rebels based in Costa Rica—with the permission of Costa Rican President Rodrigo Carazo, who says he feared the consequences of not cooperating with Cuba. But on May 11 the Costa Rican government, too, broke off relations with Cuba.

• *Louisiana Income Tax.* If Rep. Woody Jenkins is successful, Louisiana may become the third oil-producing state without an income tax (the others are Texas and Alaska). Jenkins contends that state income taxes account for only three percent ($200 million) of total state revenues; furthermore, state revenues will increase by 20 percent in the next fiscal year while individuals face declining real incomes because of higher Social Security withholding and bracket creep caused by inflation.

• *Solidarity Newspaper.* The Polish independent trade union Solidarity has begun publishing a weekly 16-page newspaper of the same name, with a first printing of 500,000. Editor Tadeusz Mazowiecki, a prominent Roman Catholic intellectual, wrote in its first issue that "if it is not always able to tell the whole truth, it will not lie" and stressed that both the union

and the newspaper are committed to "solving conflicts...without bloodshed."

• *Limits on the 55.* If you're driving up to 70 miles per hour in Nevada these days, you will be subject only to a five dollar "energy wasting" fine. Nevada has joined Montana in effectively flouting the 1974 Emergency Highway Energy Conservation Act imposing a national speed limit of 55 miles per hour, while Arizona and North Dakota legislatures have moved to raise their speed limits if the federal maximum is raised or repealed.

• *Import Curb Surveys Split.* Responses to surveys on import restrictions on Japanese automobiles may depend on how the question is asked, the *Los Angeles Times* suggests: "If the survey is put in terms of jobs, respondents are patriotic. If the talk is just about cars, they like the Japanese." An ABC News-Harris Survey last year, asking respondents in highly loaded terms whether they favored strict import restrictions, elicited 58 percent in favor. But a more recent J. D. Power & Associates survey showed only one in three supporting restrictions. And a National Federation of Independent Business membership poll showed 68 percent opposing auto import restrictions.

• *Hasta la VISTA!* The Reagan administration has apparently decided to eliminate the VISTA volunteer program in late 1983. VISTA was formed in 1964 as part of Lyndon Johnson's "War on Poverty" program.

• *Bipartisan Budget Bill.* House Majority Leader Jim Wright (D-Tex.), Rep. Phil Gramm (D-Tex.), and Rep. Trent Lott (R-Mass.) have joined forces to cosponsor a bill requiring a balanced federal budget by 1984.

• *British Health Care.* Despite vehement and sometimes violent objection from the unions, private health care in Britain is expanding. The three largest private health insurance associations now cover some three million people and report a 13.7 increase in membership over the last year. Quite a few new private hospitals are being built, several by a British subsidiary of American Medical International. A new government directive further allows National Health Service authorities to go into partnership with private groups, although knowledgeable sources are pessimistic about any substantial changes.

• *Bargaining for Rents.* A Rand Corporation study concluded that the federal government would save about $210 million a year if it allowed federally assisted low-income renters to negotiate their rents directly rather than use a government intermediary to talk to landlords. The particular program studied (Section 8) subsidizes privately owned housing for low-income persons.

• *Computer Program Patents.* The US Supreme Court voted 5 to 4 in March that an industrial process using a computer program may be patented, even if the use of a computer is the only new part of the invention. An industry spokesperson commented that software companies will probably continue to rely on trade secrecy rather than patents because patents require disclosure of information.

• *Legislative Veto Opposed.* Atty. Gen. William F. Smith said that the Reagan administration will oppose the power of a legislative veto as unconstitutional when it encroaches on the president's own veto power. The administration may, however, approve a law giving Congress legislative veto power over independent regulatory agencies that do not report to the president. A definitive Supreme Court ruling on the question may be sought.

—Robert Poole, Jr., and Christine Dorffi

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A Radical Proposal

SAVING THE WILDERNESS

Will the need for strategic minerals spell the death of America's wilderness? Environmentalists think so—and defense-minded congressmen are reinforcing those fears. But there *is* a way to have our minerals and keep our wilderness too.

By John Baden and Richard Stroup

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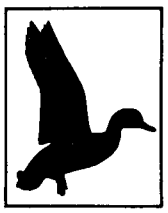
The free enterprise system as it works in practice excludes [some] goals. Does anybody believe the mining and chemical companies are going to keep the water and air clean without a hard shove from government?

—Joseph Kraft,
syndicated columnist, April 1981

You better believe the oil companies behaves themselves on Rainey.

—Lonnie Legé, manager,
Rainey Wildlife Sanctuary



MARSHLAND, LIKE THE desert, does not appeal to everyone. *Swamp* is not a word that conjures up visions of beauty in everyone's minds, but for some, Vermilion Parish in Louisiana is the most beautiful place in the world. If you don't mind the mosquitos, you can take a boat into the flat, wet land of the Cajuns to see a part of the world that is hauntingly alluring. If you take a shallow-bottomed bateau into the marsh on a winter morning before the sun rises, there is much beauty.

Mist obscures the horizon as the traveler navigates around locust, cypress, and clumps of roseau cane. As the morning light increases, the startling colors of marsh flowers—fiery orange and yellow and dry bone white—become noticeable. Deer run wild where the bayou turns to firm ground. The predawn light might reveal armadillo, muskrat, otter, mink, nutria, or any one of hundreds of different birds that love the marsh or the alligators that seek out those "critters," as the Cajuns say, for breakfast.

But the real show doesn't start until the sky turns lavender with the rising sun. The sun through morning fog is the signal for thousands of snow geese to prepare for flight. Flexing the muscles of their wings, the birds begin to whip the air. Tens of thousands of small thuds turn into a thundering of goose wings, yet they remain on the ground. Finally they lift off. Their honking adds to an already almost overpowering noise as squadrons of geese launch and take up flight formation. On some mornings the sky may fill with 20,000 snow geese; on others there are an awesome 60,000 geese in the air, blanketing normal conversation.

Patrick Cox, a free-lance writer, assisted the authors with researching and writing this article.

When the morning flight ends in the National Audubon Society's Rainey Wildlife Sanctuary, a visitor may decide to take the long way home and see more. The sanctuary is and has been a haven for many different species, stringently protected from the human species; even tourists are not welcome in the Rainey preserve. But journalists with the right credentials may take an escorted tour into the marshland to see one of the most startling sights on the whole preserve. Leading you down the right bayou, through the right swamp land, around the nesting grounds of beasts both fur and fowl, the Cajun guide can bring you to man-made islands of steel and concrete: natural gas wells.

Gas wells in terrain managed by professional, dedicated environmentalists may seem almost as out of place as free drinks at an AA meeting. What happened to the hostility that has come to exist between resource developers and conservationists? Have the lion and the lamb laid down together in the same field?

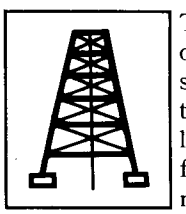
On the national front, nothing could be further from the truth. Ever since Reagan was elected president—and especially since he appointed James Watt secretary of the Interior Department—environmental groups have been concerned that their victories of the '60s and '70s will be reversed. And industry voices, counting on a sympathetic ear, have stepped up their complaints that pro-environment resource and antipollution policies are hamstringing the US economy.

Now, the battle is moving to the strategic metals front. Citing the economy and national security, some people are pointing with alarm to America's growing dependence on unstable or antagonistic foreign sources, not only for petroleum, but for many minerals, as well. In 1980 Rep. James Santini (D-Nev.) held hearings on the strategic metals situation in his Mines and Mining Subcommittee. He also urged the Interior Department to study the problem, but its report, with a recommendation that domestic production be stimulated, was a source of embarrassment to President Carter. After an unsuccessful attempt to get Interior not to release its report, Carter ordered a National Security Council review, not yet completed, of US minerals dependence.

The Reagan administration, however, came into town with definite ideas about the situation. From his confirmation hearings on, Interior Secretary Watt has laid emphasis on forming a federal policy toward strategic metals. (The executive has been enjoined by Congress to do this since the Mining and Minerals Policy Act of 1970 was passed, but it has never done so.)

The first prong of such a policy, Watt has made clear, is to make public lands more accessible to mining. And that worries those who would have portions of the country preserved and protected as wilderness. "Interior Seeks Government-wide Policy; Environmentalists Fear Mineral Raids on Public Lands"; "Sides Square off over Hayakawa's Wilderness Development Bill"; "Reagan's Drive to Open More Public Lands to Energy Firms May Spark Major Battle"—these have not been unusual news headlines in the past few months.

But the gas wells in the Rainey Wildlife Sanctuary may be the answer in microcosm to the confrontation now coming to a head. The significance of the Rainey wells may not be obvious at first, but it is our belief that they point the way to a solution both for those who fear that America is courting disaster by keeping crucial minerals locked away because of environmental concerns, and for preservationists who fear that their hard-won gains may be swept away in the face of a national minerals shortage.

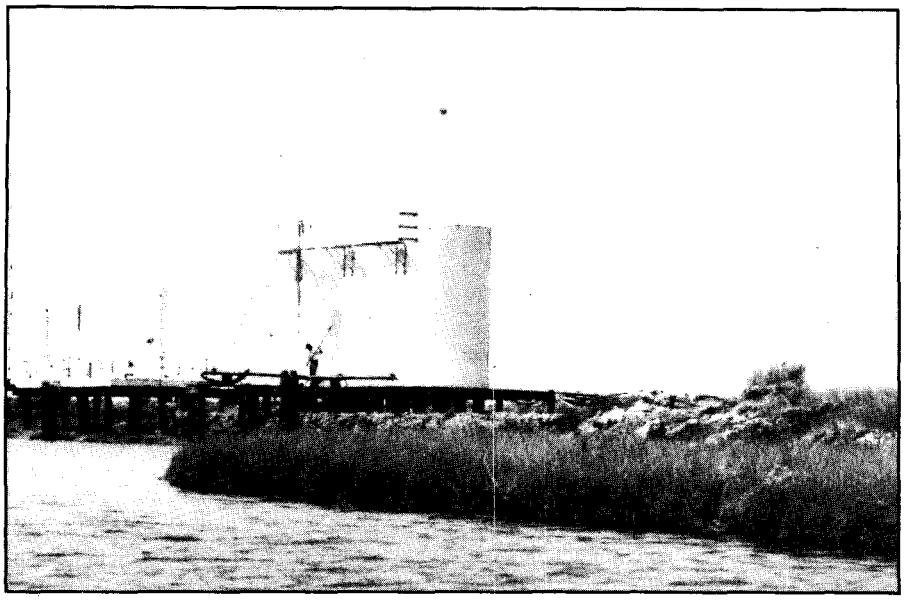


THE ANXIETY OF THOSE on the pro-development side is based on the fact that the United States is largely dependent on foreign sources for natural materials that enable people to travel, receive medical care, be entertained, or even work at the jobs that provide money for groceries. Even agriculture, dependent on machines and transport, would be drastically affected by a cut-off of mineral supplies.

Ever since the Arab oil embargo of 1973, the possible cut-off of petroleum to the United States has been the inspiration of conjecture about military intervention overseas in the case of another stoppage. Yet imports account for less than half of America's oil consumption.

By contrast, imports account for from 70 to as much as 100 percent of at least a dozen minerals essential to US industry.

John C. Meyers/Picture Group



John Williams

In the middle of the Rainey Wildlife Sanctuary, gas wells

More than 50 percent of half a dozen other essential minerals come from foreign sources. (See box, p. 31.) Observers grow even more edgy when examining the particular sources of crucial metals—mostly the Soviet Union and southern Africa. With the exception of Australia, which has a limited potential for increased export, most of the foreign sources are politically unpredictable.

The major deposits of chromium, for example, are in South Africa, Zimbabwe, and the Soviet Union. Allen Gray, technical director of the American Society of Metals, warns, "A cut off of our chromium supply could be even more serious than a cut off of our oil supply. We do have some oil, but we have almost no chromium." In fact, the United States imports 91 percent of its chromium. If it were not available for transformation into stainless steel, surgical equipment, and ball bearings, the American way of life would take a quick and nasty turn.

The possibility of economic disruption of serious proportions is one source of increased activism by those who would like to ensure prosperity for Americans. If the use of foreign minerals in American industry were to diminish slowly, there would be a gradual realignment of prices and products. But a sudden cut-off would not allow for gradual readjustment, and *chaos* becomes a word with legitimate function.

Also disconcerting to many, however, is the effect a minerals shortage could have on national security. Jet aircraft and high-technology components of military hardware are particularly dependent on minerals supplied largely from Communist-controlled or politically unstable areas of the world.

For those who would welcome the implications for the US arms build-up, however, there is little consolation in the minerals situation. As long as the government considers an uninterrupted flow of resources worth fighting for—and that is a good part of the rationale for the Carter-initiated and Reagan-embraced Rapid Deployment Force—there is danger that the American military will "secure our vital interests" in case of an interruption of that flow. Members of the defense community warn that in the event of a "minerals war"—the strategic denial of minerals to the United States by foreign powers—the United States could not maintain "limited warfare" for any extended period of time. The inference is that the only option outside of surrender would be "unlimited warfare."

Is the problem that US sources of strategic minerals have been depleted by previous mining activities? On the contrary, contends John P. Morgan of the US Bureau of Mines, who says that "the U.S. could be virtually self-sufficient in all but a few minerals, such as chromite." His opinion is shared by many, including Sen. Harrison Schmitt (R-N.M.), a geologist and former astronaut. "Nature endowed us with unbelievably vast natural resources," he notes, "most of which have not been tapped."

In its report at the conclusion of hearings on strategic minerals, Representative Santini's subcommittee pointed out several factors that have contributed to the increasing foreign share of US mineral supplies: US tax policies that fail to encourage capital formation, health and safety regulations that increase the cost of production, antitrust legislation that is supposed to encourage competition but actually discourages mineral production, and restrictions on or prohibition of mining on federally owned land. It is the latter—what Santini's report calls the public land access problem—that is now the focus of hot debate and that is our concern here.

The federal government owns one-third of the land area of the United States, and it happens that much of that acreage is concentrated in mineral-rich states. Alaska is 89 percent federally owned; Nevada, 86 percent; Utah, 66 percent; Idaho, 64 percent; Oregon, 52 percent. A 1977 Interior Department report estimated that 42 percent of public lands have been declared off-limits to any mining for minerals and that mining activity has been greatly restricted in 16 percent and moderately restricted in another 10 percent. Santini's report estimates that further withdrawals of land since 1977 have made those figures 10-15 percent low, with the prospect of more withdrawals under the National Wilderness Preservation System and other federal programs. This is the vast acreage that Interior Secretary Watt has vowed to open up to mining activity under "a national strategic minerals policy . . . that protects American jobs and investments, improves our balance of trade, revitalizes the nation's economy, and provides for the security of foreign minerals imports."

A 1977 Interior Department report estimated that 42 percent of public lands have been declared off-limits to mining for minerals.

LINED UP AGAINST Watt and the industries whose interests he is charged with serving are people who have fought hard to have the government preserve large portions of American land in pristine or near-natural states. Historically, they are latecomers. There was so much wilderness land around until the last century that few thought of undeveloped land as an asset. Aside from occasional and largely transitory disturbances of the land by Indians, the vast bulk of what is now the United States was pristinely primeval. While it may have been heaven for Druids, however, given the tools of the day it was hell for settlers.

When Tocqueville was traveling on the fringe of civilization and announced his desire to venture into the primitive forest for *pleasure*, the frontiersmen considered him insane. Many of those who did daily battle with nature had grown to hate and fear it. Wilderness was something to be subdued to make way for civilization.

The writing of this period is permeated with the association of wilderness with evil. On the eve of settlement Michael Wifflesworth wrote that the new land was a "wasting, howeling wilderness,/ Where none inhabitants/But hellish fiends, and brutish men/That devils worshiped." The idea of wilderness as enemy persisted long after the pioneering way of life was over, until, during the 19th century, a more favorable approach began to take hold.

Throughout our history, wilderness has been an unpriced asset. Initially, there were no charges to its users because it had a negative value. Today, there are no charges despite its positive

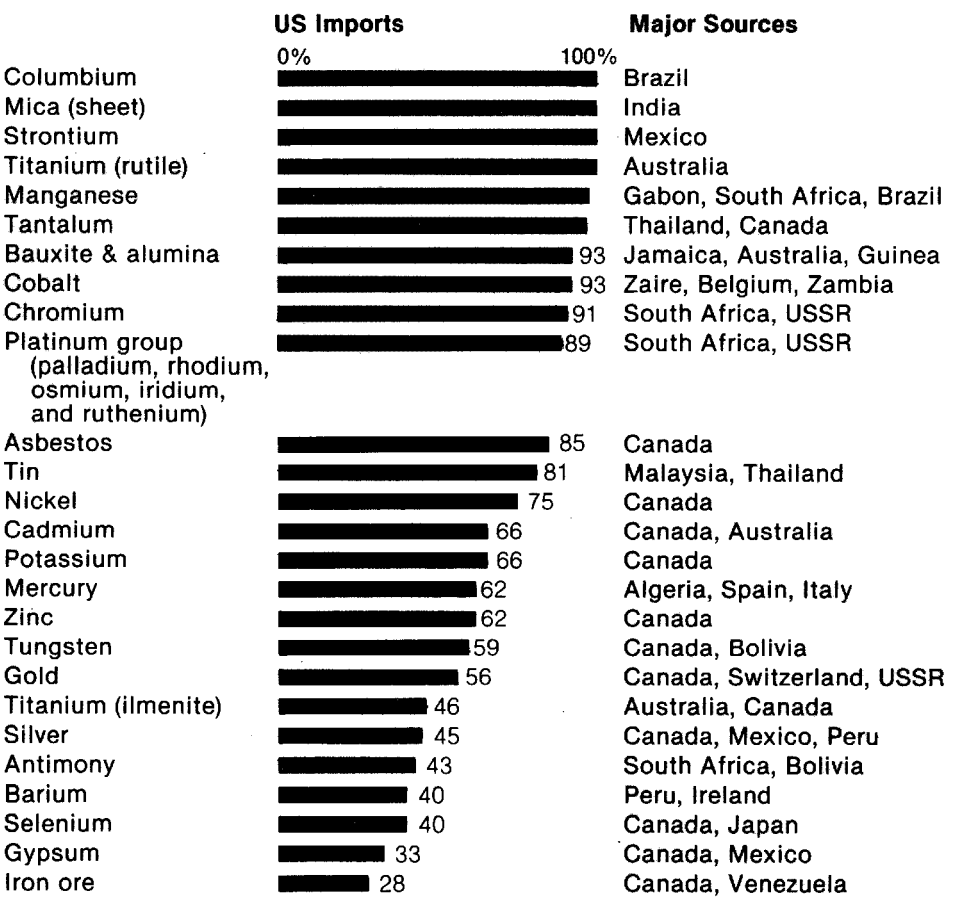
HOW STRATEGIC ARE THEY?

Tantalum, antimony, iridium, palladium—they sound exotic, almost poetic. Yet they and a host of other minerals, some of them—asbestos and zinc, for example—more familiar on the tongue, are essential materials in a long list of ordinary products that contribute to our well-being: magnets, steel and stainless steel, automobile antipollution devices, jet engines, drill bits, surgical equipment, petrochemical refineries, glass-processing equipment, nontoxic paint, computer hardware, and so on and on. Such materials will also be vital to energy sources being developed in an attempt to reduce our dependence on imported oil: geothermal and ocean thermal energy, coal gasification and liquefaction, oil shale and tar sand development, fission and fusion.

For many of the essential minerals, however, the United States must rely in whole or in large part on foreign countries (see chart)—many of them unfriendly and volatile. Political disturbances in Zaire, for example, which harbors 65 percent of the non-Communist world's supply of cobalt — have precipitated manic-depressive changes in price over the last three years. The only domestic source of platinum-group metals is recycling; the rest is imported, mainly from the Soviet Union and South Africa.

Chromium, 91 percent imported, is used mostly in stainless steel, for its excellent properties of corrosion resistance and hardness at relatively low cost. "A chromium embargo by the USSR and Zimbabwe would bring the entire industrial world to its knees in just six months," says Rep. James Santini—as much because of its use in medical equipment as because of its use in automobiles.

The current worries about import dependence are put in perspective by William Dresher, dean of the College of Mines at the University of Arizona and a consultant to the National Science Foundation. In 1950, he points out, "this country depended on imports to meet half or more of its needs for only four of thirteen basic industrial raw materials....In 1979, imports accounted for more than half of nine of these same thirteen mineral commodities." In those two decades, the United States moved from "a positive balance of trade in minerals to a deficit of more than $9 billion."



Source: US Bureau of Mines.

value. When the majority of land was wilderness, the marginal value of an incremental unit was zero or negative. Its primary value lay in being able to convert its resources into marketable products. Only to Henry David Thoreau, John Muir, John Audubon, and a few others who were considered eccentrics did wilderness also have value as a good to be enjoyed in and of itself. Today, their appreciation of wilderness is shared by many more, yet there are no charges to its users despite its positive value.

As incomes rose in the United States, so did the amount of time Americans spent on recreation. This trend is accelerated by an increasing marginal tax rate on earned incomes—the more money you make, the smaller the part of it you get to keep. A logical reaction is to increase the use of resources that have no direct user fees for the consumer. Those who use wilderness for recreational or aesthetic purposes are not charged for or taxed on the benefits they derive from it.

Along with the increased recreational demand for wilderness, however, there was an increased demand for land for other uses. Thus some of the supply of wilderness was being withdrawn at the same time as demand for it was increasing. Both of these factors acted to increase the value of wilderness. Obviously, rare wilderness ecosystems would demand a high price if they could be owned and exchanged like other goods.

gressional designation.

Probably the first suggestion in the United States that land be set aside as wilderness was made in 1833 by George Catlin in a letter published in a New York newspaper. In 1844 New York State created a forest preserve by constitutional amendment, and in 1872 Yellowstone National Park was established. The idea that wilderness should be protected was beginning to gain support. By 1933, 63 primitive areas had been established on Forest Service (Department of Agriculture) land, ranging from 5,000 to over 1 million acres.

With passage of the Wilderness Act of 1964, 9.1 million acres of land were protected from development—including any and all mining activity—and the Forest Service was enjoined to recommend further areas for congressional designation as wilderness. Section 2(c) of the act defines wilderness as

> *an area where the earth and its community of life are untrammeled by man, where man himself is a visitor who does not remain. An area of wilderness is further defined to mean in this Act an area of undeveloped Federal land retaining its primeval character and influence, without permanent improvement or human habitation, which is protected and managed so as to preserve its natural conditions.*

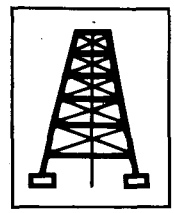
The section specifies that wilderness must show no substantial mark of man,

There is a very real danger that environmental concerns will be swept away in a rush to supply America with vital resources.

But they can't. By 1950, many of the areas we could consider wilderness were already public land and thus not available for sale. But this meant that wilderness lovers could not keep such areas away from other users simply by outbidding them in a market. Instead, the increasing value of wilderness generated a movement to save it via the political process.

For politicians, it was an ideal situation. Because the areas were not privately owned, condemnation proceedings with their attendant costs were not required. Land could be set aside for users of wilderness as wilderness simply by congress provide opportunities for solitude and primitive recreation, and be of at least 5,000 acres and may (but need not) "contain ecological, geological, or other features of scientific, educational, scenic, or historical value." In 1976 the Interior Department's Bureau of Land Management (BLM) was brought into the recommending process. By 1980, a total of almost 80 million acres had been set aside as wilderness.

In addition, 62 million acres being considered for wilderness classification under the Forest Service's Roadless Area Review and Evaluation (RARE II) process must legally be treated as wilderness until RARE is completed and Congress has acted on any recommendations (Congress has as much as 11 years to do so). Likewise, 60 million acres in the comparable BLM program have been set aside as Wilderness Study Areas. In sum, though many environmentalists worry that there is not enough land designated as wilderness, the total is hardly trivial.



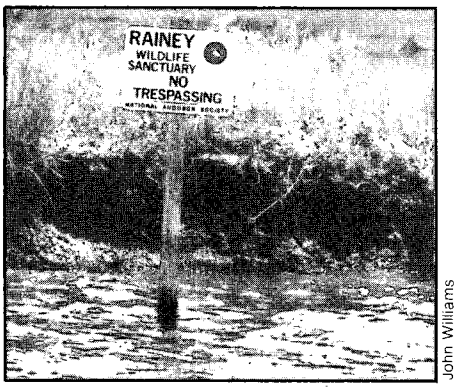
GIVEN THE HISTORY OF government as protector of the environment, however, it is not surprising to see environmentalists concerned about the Reagan administration's promise of stepped-up development of public lands under BLM supervision. For years, government has failed to act as the protector of individual rights against invasion of the body and destruction of property by pollutants. Only recently has it begun to stop gross violations of rights occasioned by the "externalities" or waste products of its own and business activities. One need look no further than the pollution of the Great Lakes or the cancer-ridden communities in Utah that were subject to atomic tests by the American military. Moreover, government powers of eminent domain and taxation have been used to build railroads, dams, pipelines, and nuclear plants where they may never have been built if developers had been left to pay the full costs of moving people off land desired for projects and if the actual users of projects had been required to pay for the costs of development.

Nor has government's management of publicly owned resources provided examples of enlightened stewardship. Whether the strategic minerals situation is brought to a head by an actual emergency or by the threat of one, it is clear that, as long as the bone of contention is access to public lands, *government* will decide how mineral exploitation will be carried out. That could be, in common terms, bad news. Theoretically, we would predict as much, but actual examples of what has come to be known as the "tragedy of the commons" are more helpful in understanding the problems with government ownership and management of resources.

Wilderness advocates would do well to examine the fate of the American bison. While cattlemen in the old west jealously

guarded and improved the quality and size of their herds, buffalo were being slaughtered for their tongues because, since no one owned them, no one had the incentive (the possibility of reaping benefits in the future) to protect them. Whale populations have suffered because of the same lack of clearly defined and enforceable property rights.

The timber industry is criticized for logging ecologically sensitive areas. The very fragility of those areas, however, guarantees that they would have remained untouched were it not for government intervention. Slow-growing, sparsely timbered areas are a no-win investment for companies that have to absorb the whole cost of logging. But, typically government helps them out. Here in Montana, for example, areas have been logged that nobody could have touched without *government-built roads.*



John Williams

The sanctuary is run for the wildlife

Besides causing 90 percent of the erosion associated with logging in areas that may take decades to reforest, the roads cost the taxpayers—thousands of dollars per thousand board feet of lumber taken out of one area. The loggers sold that lumber for only about $42 per thousand board feet. Obviously, if they had had to pay for their own roads, they would never have logged in this area.

Also in Montana, the government recently hired a professional hunter to kill cougars that were supposedly killing livestock. Few of the ranchers in the area would have launched a massacre of that scale. There is a grudging respect for the wildcats, which rarely prey on stock unless they are injured or too old to make it in the wild.

On the other hand, there are examples of situations handled politically in this country—with dubious results—that are handled through a system of private ownership in other parts of the world—with admirable results. Scotland has no government agency to protect water quality. Yet its streams run as pure and clean as any of us would have American streams. How does it happen? Individual Scots have clearly defined and transferable (saleable) rights to the streams, so incidents of pollution or diversion constitute damage to individuals, not failure to meet government standards, and are treated as such in the courts.

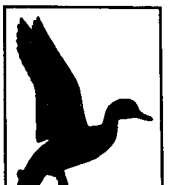
As long as the bone of contention is public lands, *government* will decide how mineral exploitation will be carried out, and that could be bad news.

Property rights make a difference because they provide an incentive to manage a resource—whether a forest, a herd, a stream, or a parcel of land—in such a way as to maximize the long-run return to the owners. Government-owned resources, in contrast, are subject to political (not owners') decisionmaking, which tends to be short-sighted. Current benefits and costs are more easily discernible by the electorate than are future benefits and costs, and the politicians respond accordingly.

The results of this sort of decisionmaking can be very significant. Economists refer to the costs to society of misallocation of resources as "opportunity" costs: when resources are used in any way, opportunities to use them in other ways are forgone. If the federal government were to declare the materials used to make this magazine "public" property for the sake of producing a consumer information pamphlet on the recreational benefits of Army Corps of Engineering projects, the opportunity cost to society would be the loss of this magazine.

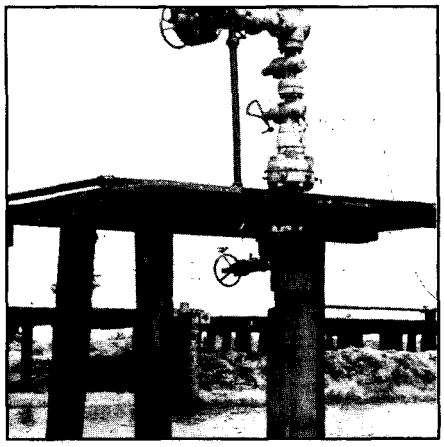
In the case of wilderness designation, there are very significant opportunity costs. Because minerals are not extracted from protected lands, society pays the price of wilderness lands in terms of goods that are not produced and in higher prices for the goods that are produced. In addition, jobs that would be created with an increase in mineral resources never materialize. Likewise, there are opportunity costs to, say, allowing a resort to be built on wilderness land: some people will not now be able to enjoy wilderness, and jobs attendant to caring for that tract as wilderness will no longer be available. If wilderness users were charged, society would also pay a price in terms of higher user charges for the enjoyment of remaining wilderness areas.

While in the past two decades environmentalists have succeeded in making people aware of opportunity costs associated with the use of land, now people are becoming increasingly aware of the opposite costs. There is a very real danger that environmental concerns will be swept away in a rush to supply the United States with vital resources. That is certainly not our wish. In an ideal system, we would have the economic costs of any ecologically motivated action taken into account. But we would also have the ecological costs of any economically motivated action taken into account. Which takes us back to the natural gas wells on Audubon property. Has private ownership made a difference there?



THE LARGEST OF THE Audubon Society's wildlife sanctuaries is 10 miles south of Intercostal City, in Vermilion Parish, Louisiana. The 26,800 acres of marshland are a haven for migrating snow geese, which coexist with nutria, mink, armadillo, and alligators. The Rainey Wildlife Sanctuary is a superbly successful attempt to accommodate "the critters in the marsh," as the Cajun manager of the sanctuary, Lonnie Legé, says.

The sanctuary is run for the sake of the wildlife, especially the geese, and visitors are politely encouraged to visit other bird refuges with facilities for observation. If you do gain access to Rainey, you go into the swampland with Legé or some of his relatives. If you travel to the right place, you will see the facilities of three oil



John Williams

Close-up of gas well in Rainey

companies currently operating a half dozen gas-producing wells, bringing the National Audubon Society close to a million dollars of revenue a year in royalties. In another, drier, area of the sanctuary, you could see cattle grazing for a per head fee to the owners.

The inherent contradiction between the situation at Rainey and the pleas of environmentalists to maintain an increasing amount of pristine wilderness is sharply defined. An Audubon pamphlet speaks calmly of the situation. "There are oil wells in Rainey which are a potential source of pollution, yet Audubon experience in the past few decades indicates that oil can be extracted without measurable damage to the marsh. Extra precautions to prevent pollution have proven effective."

Audubon officials involved with the project are more enthusiastic. John "Frosty" Anderson, the director of Audubon's Sanctuaries Department, is aware of environmentalists' charges that Audubon has been "bought off by big oil." "There's no denying that [Rainey mineral royalties] are significant in terms of revenue for Audubon," he says. But "The relationships we have had with oil companies over the years have been very satisfactory. As long as we know what precautions we want them to take, we have had no trouble in getting them to comply. We probably require them to take extra precautions simply because it is a wildlife sanctuary and we have a membership of over 400,000 who would be very irate if we polluted our own environment, our own land, our own sanctuary. The companies have leaned over backwards.

"After they've finished their drilling and they still have their equipment, if we need a job done with a drag line, they're usually happy to do it. So we have had some levees constructed and flumes installed so that we have water control that we could not have afforded if we would have had to pay for it." Consolidated Oil and Gas is one of three oil companies operating on the sanctuary. Lonnie Legé, speaking of their part in improving by tenfold the capacity of certain areas of the marsh to sustain wildlife, says, "They was real cooperative."

The Audubon Society oversees all activities in the sanctuary. An Audubon lawyer and geologist are involved with any development that could prove harmful to the marshland. O. R. Carter, the geologist employed to look out for Audubon interests, says, "I am very proud of the way industry has responded to Audubon's requirements. The Rainey preserve is the ideal way to manage lands in this country. To my way of thinking, the word is always *conservation*, in crucial minerals as well as the surface and wildlife. I don't know an area that minerals are being taken out of that is not of ecological concern. . . . The object is to manage it in such a way that maximum conservation is accomplished on all levels."

Speaking of government lands, Carter says, "There is undoubtedly a lot of land that the federal government has that could be returned to private hands, and there is no reason for the mineral resources to be tied up. We will all have to learn to replace and use things ultimately, but there's no reason that we should have to return to the dark ages to do it. [There is a] fantastic amount of acreage that the federal government owns, and the present laws are certainly a deterrent to developing desperately needed minerals on those acreages. . . . Returning government land to private property is the only way we can ever get the maximum utility from it. As a matter of fact, I think it's the only way to get the maximum utility of the *ecology*."

Such strong statements are not forthcoming from the public relations department of the Audubon Society. Frosty Anderson, the director of the Sanctuaries Department, is willing to admit, though, that government is probably the environmentalist's greatest enemy. And he finds it "ironic that the new administration has made a big issue of getting the government off our backs, but subsidized agriculture will probably be around for four more years at least, and it's ruining potentially productive land. We're paying to have our environment deteriorate."

Speaking of conservatives, Anderson says: "Some of the massive water management projects—real boondoggles, like

John Williams

Lonnie Legé, manager of the Rainey Sanctuary, and his brother

the Garrison Diversion Project in North Dakota being built to irrigate roughly 250,000 acres—will by their own figures destroy 225,000 acres of already productive land that admittedly uses dry land farming. The great, strong promoter has been a hide-bound Republican, Senator Milton Young. It is ironic that *conservative* and *conservation* are not spelled with the same *c*."

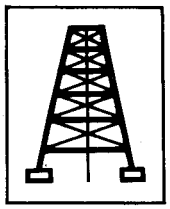
> "We have a membership who would be very irate if we polluted our own environment, our own land, our own sanctuary."

The Rainey preserve was given to the Audubon Society by the estate of Paul J. Rainey in 1924. No drilling was done until the mid-'50s. There was no protest from members at the time, and the managers of the preserve simply went about the business of selling the drilling rights, though their present lawyer says that their lack of expertise at the time led them into some less-than-market-value deals. That has changed now, and Audubon is working out similar arrangements in other areas.

The Michigan Audubon Society plans to extract oil from a preserve there. In South Carolina, the society is attempting to maintain a hardwood forest area for a profit without the aid of potentially dangerous insecticides or destructive logging methods.

The drilling of an exploratory well at an Audubon preserve in Florida, however, has come under environmentalist attack. Though the platform will take up about one acre of nonsensitive land out of 11,000 acres in the preserve, Audubon is being heavily criticized for allowing the drilling, despite the fact that they only hold 25 percent of the mineral rights and could not stop the drilling if they tried.

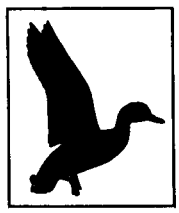
Besides providing revenue for the ecological groups, enhancing their ability to acquire other lands, private ownership of lands enables them to use management techniques that would be illegal or impossible on government lands. The Rainey preserve, for example, uses controlled burning to encourage growth of the three-cornered grass that geese relish. Grazing is strictly controlled on the 8,000 acres of Rainey that are suitable for cattle. The herds not only represent another source of revenue but actually improve the environmental quality of the sanctuary by passing seed and breaking up the ground for plants that geese prefer. Frosty Anderson notes that on private preserves, "We are not forced to take the short-term attitude." Referring to biologists he knows who work for government preserves, he relates that "friends who insisted on enforcing grazing restriction for the long-run good of the land were somehow or another transferred to another refuge." He says government's Bureau of Land Management just doesn't have the clout to stand up to political pressures to use public lands, bringing on the familiar "tragedy of the commons."



THE NATURE CONSERvancy is another important group that buys and manages ecologically sensitive areas. A recent fundraiser emphasized: "We don't sue or picket or preach. We simply do our best to locate, scientifically, those spots on earth where something wild and rare and beautiful is thriving, or hanging on precariously. *Then we buy them.* We're good at it. In less than three decades we've acquired—by purchase, gift, easement and various horse trades—Rhode Island, twice over." The conservancy keeps about half the land it acquires, donating the other half to the government or local conservation groups. At least one of the reasons that they give land to the government is that the government doesn't often condemn its own land for some construction project or road.

One of the conservancy's most popular preserves is a bird refuge in Arizona, the Mile Hi/Ramsey Canyon Preserve. Cottages, pet-boarding facilities, and tours are available for a price. The project turns a profit and benefits other NC activities. Walt Matia, assistant director of stewardship, describes it as "a good, though atypical, example of making a preserve pay for itself." He adds that "certain lands can be managed with better results and at lower costs than can be done through a public agency," but he believes this is "probably the result of fewer regulations and public expectations and not any magic of free enterprise." Of course, the lack of regulations and exaggerated expectations are indeed part of the "magic of free enterprise."

Nature conservancy turns down land every year from potential contributors because it does not fit in with their overall plans. But if the owners don't mind having the NC sell the donated land to buy other, more crucial, real estate, they will accept it. This conservationist group, at least, doesn't seem to mind a little horse-trading. It is that sort of rational behavior that is at the heart of our proposal.



THE AMERICAN POLITical system is avowedly experimental. We here suggest an additional experiment. Assume that there is an area that may be developed for mining or that may be classified as wilderness. Under the current system, environmental interest groups may be expected to ignore the opportunity cost of wilderness classification and advocate this disposition of the land. Incremental units are added to the wilderness system, and the land is available for low-density recreation. In addition, the supply of valuable minerals is reduced, there is increased reliance on foreign sources for that mineral, and the price and uncertainty of its availability increase. Given the high degree of interdependence in the United States, nearly all citizens may be expected to pay this uncalculated opportunity cost. The self-interest of wilderness advocates imposes a cost on the rest of society. On the other hand, if miners prevail, they frequently destroy wilderness values, again without compensation to the rest of society.

What we propose is that lands presently included in the Wilderness System be put into the hands of qualified environmental groups such as the Sierra Club, the Audubon Society, and the Wilderness Society in exchange for (1) their agreement that in the future no wilderness areas be established by

political fiat and (2) either their development of the acquired land (according to their own rules, of course, as in the Rainey case) or their clean-up of an environmentally degraded area be equal in size to the wilderness area acquired. The result would be that these areas, vast portions of which are currently closed to all mining activity, would be managed by groups with the expertise to weigh potential damage to the ecology against potential profits. (Existence as a membership organization might be a suitable criterion for qualifying as an environmental group.)

As a mental exercise, assume that an environmental interest group such as the Sierra Club is given fee title—full and transferable ownership—to wilderness land. This organization then has the opportunity to lease mineral rights and obtain the royalties. How would the organization behave? Assuming that the managers of the interest group are intelligent and dedicated individuals, they will attempt, in accord with their values, to maximize *their* potential value from the resource. Given that they have a *general* interest in wilderness values and that they are not totally oriented toward any specific land area, they will carefully evaluate the contribution that this land can make to their goals.

For example, if the area has a titanium deposit that is expected to yield $1 million worth of benefits, they would consider developing it. The basic questions they confront would include: (1) How much revenue will such an activity yield? (2) How much additional wilderness land may we buy with this income? (3) Is there a way to manage these lands that will permit mineral extraction while minimizing the impact on the wilderness features of the land?

Under these circumstances, as opposed to public ownership, the wilderness groups would be forced by self-interest to consider the opportunity cost of total nondevelopment. Further, rather than resolutely opposing the extraction of any commercially valuable resources from the land, they would focus on obtaining these resources while maintaining to the optimal degree the wilderness character of the area. Different incentives lead to different behavior.

Extraction of mineral or energy resources does not necessarily result in ecological wipeout, of course. Mining is not simply despoliation, although it can be. There are tremendous variations in the impact of alternative kinds of mining on an area, and the potential variation is much higher. (This is especially true for extraction of energy resources.)

Nor is it likely that many large mineral deposits would coincide with areas of *critical* environmental concern. Mining, by nature, has to be a very concentrated activity to pay. The total acreage mined for nonfuel minerals in the United States in the last 50 years is less than a million acres. According to Representative Santini's report to Congress, 90 percent of the free world's mineral requirements are supplied by less than 1,200 mines. So a small area of wilderness land in mineral production could make a tremendous difference in terms of America's mineral independence.

If an environmental group decided that the minerals in a particular area could not be extracted without greater damage to the land than the benefits of extraction, the group would simply be required to make improvements on an equivalent amount of land that had been damaged by previous activities of others now long gone. Conservationist groups could thus add to their stock while using their pool of voluntary labor to repair land that has not recovered from, say, primitive mining techniques.

One can conclude that rational managers of these groups would choose land that would enable them to do the most good in terms of their organization's goals. They could simply choose title to ecologically sensitive areas, but they would very likely consider the alternative uses to which the land might be put. Land that has a high economic value can be mined now or later, and it would be logical for the groups to opt for mineral-valuable land simply to ensure that it is developed according to ecologically sound standards. And they might choose to ignore ecologically crucial areas and go right for the most valuable mineral lands in order to raise the money to buy other sensitive areas. The end product—increased supply of minerals—is the same, and that end is accomplished in a way that moves the institutions of our society away from government solutions to a system of private property and choice.

This small change in the rules of the federal wilderness/minerals game could yield enormous social benefits. With land in private hands, all parties concerned become much more constructive in their thinking and language. Instead of discrediting the goals of others, the question becomes: How can our desires best be achieved at *least* cost to others? The owner thinks this way in order to capture more revenues, selling off the highest-valued package of rights consistent with his own goods. Similarly, a buyer of rights to mine, or a buyer of easements to conserve, wants to purchase his valued package at the least cost to the seller and thus to himself.

Also, the unlimited wants of every party are forced into priority classes. The *most important* land rights will be purchased; declarations that every contested acre is "priceless" become suitably absurd. Even people in single-minded pursuit of profits or of wilderness goals will act *as if* other social goals mattered. Indeed, they may *seek out* higher-valued uses of their own acreage, using profits to obtain new means to satisfy their own narrow goals. And after all, it is our actions, not the worthiness of our goals, that concerns the rest of society. ◻

Private ownership of lands enables environmental groups to use management techniques that would be illegal or impossible on government lands.

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This article is a project of the Reason Foundation Investigative Journalism Fund. Authors Baden and Stroup wish to express their appreciation to the Sarah Scaife Foundation for its support of research that contributed to this article.

By Morgan Norval

Kept Critics

Did you know that your tax dollars are funding lobbyists for increased government regulation?

During the past 3 years the Federal Trade Commission has been doling out hundreds of thousands of dollars to various self-proclaimed public interest groups who then appear before the FTC Commissioners and commend them and their latest regulatory scheme as being a remarkable effort by the Commission to protect the public interest.

In reality, I have found there is far more personal interest and far less "public interest" in the administration of this program than is permissible under the statutes that control the FTC. . . .

—Sen. Alan Simpson (R-Wyo.),
Congressional Record, Feb. 7, 1980

Since the Federal Trade Commission was established in 1914, one of its primary responsibilities has been to investigate complaints involving allegedly fraudulent or deceptive business practices. For the first 60 years of its life, the FTC handled such matters on a case-by-case basis. Standard agency practice was to investigate a complaint against a specific business firm and, if warranted by the facts, take action against the offending firm.

Often the action took the form of a directive to the firm not to engage in the questionable business practices in its future business dealings. That is, the FTC functioned essentially as a police force pursuing individual wrongdoers and not as a quasi-legislative body issuing rules and regulations requiring compliance from all the businesses within an industry, whether or not they had ever engaged in questionable practices.

All this changed dramatically a few years ago with the enactment of the Federal Trade Commission Improvements Act of 1975, more commonly known as the Magnuson-Moss Act. Now the FTC can and does issue sweeping rules and regulations that apply industry-wide and not just to specific firms engaged in "unfair or deceptive" practices. And what is an unfair practice? Under Magnuson-Moss, it is whatever the FTC finds or decides is unfair practice. Unfair practice is in the eye of the beholder.

Prior to Magnuson-Moss, the FTC had to show that the questionable practices it was investigating were actually "in commerce," or being done. Magnuson-Moss, however, allows the FTC to act if it thinks some business practices would "affect commerce." That opened up a whole new ball game. As FTC Commissioner Paul Rand Dixon put it, "There isn't anything you can do in the United States today that doesn't affect commerce, so we have been moved right down to every act in every state in every city."

Tacked onto this awesome grant of authority in 1975 was an innocent-sounding little amendment—the public participation amendment. Like the proverbial road to hell, it was paved with good intentions. The amendment authorized the FTC to "provide compensation for reasonable attorney's fees, expert witness fees, and other costs of participating" in the FTC's trade regulation rulemaking proceedings. The rationale: to open up FTC rulemaking to the public by reimbursing the expenses of groups that otherwise could not afford to participate.

The legislative history of the public participation provision—often called "intervenor funding"—illustrates how a lot of laws end up on the books. The amendment was added to the bill in the House-Senate conference committee. As a result, there were no hearings on the matter and no floor debates in either house. It was simply inserted into the conference report and became law when Congress passed and President Ford signed the act in 1975.

DISCRETIONARY FUNDING

Who gets to take part in FTC proceedings under this program? The exact language of the intervenor funding amendment gives the FTC a good deal of discretion in administering the program. The compensation provision states:

> *The Commission may, pursuant to rules prescribed by it, provide compensation for reasonable attorney's fees, expert witness fees, and other costs of participating in a rulemaking proceeding under this section to any person (A) who has, or represents, an interest (i) which would not otherwise be adequately represented in such proceeding, and (ii) representation of which is necessary for a fair determination of the rulemaking proceeding taken as a whole, and (B) who is unable effectively to participate in such proceeding because such person cannot afford to pay costs of making oral presentations, conducting cross-examination, and making rebuttal submissions in such proceedings.*

With this wording, Congress granted the FTC considerable freedom to choose those on whom to bestow its largess. Naturally, the temptation looms large to parcel out intervenor funds to favored groups and individuals.

Would the FTC succumb to the danger warned of by John W. Gardner, former head of Common Cause? "Public participation proposes direct assistance," noted Gardner. "If the concept of conflict-of-interest means anything, then there is danger in potential critics of an agency being financed by the very agency they criticize. We could easily create a class of kept critics, and damage the future of an independent public interest movement."

Like Adam in the Garden of Eden, the agency has yielded to temptation. The history of the FTC's intervenor funding program—which has so far handed out nearly $2 million—is one of helping its friends and ignoring its adversaries. The result has been an almost total anti-business, pro-regulation bias in the allocation of what are, after all, taxpayers' funds.

In testimony before Congress in 1979, it was brought out that supporters of more regulation of business received 95 percent of the intervenor funds distributed by the FTC between November 1978 and May 1979. And in seven major trade regulation rule proceedings during that time, the commission funded *only* advocates of the proposed rule. The subjects of those proceedings and the grants involved were:

- *children's advertising (kid/vid)*—18 grants totaling over $133,000, including more than $32,000 to the group that originally petitioned the FTC to initiate the rulemaking (Action for Children's Television/Center for Science in the Public Interest);
- *used cars*—two grants totaling over $17,000;
- *food advertising*—one grant, over $3,000;
- *over-the-counter drugs*—two grants, over $7,500;
- *antacids*—four grants, over $26,000;
- *insulation*—five grants, over $14,800;
- *funerals*—eight grants, over $18,500.

When it comes to receiving FTC money, it seems that friends make out a lot better than enemies.

MUTUAL BENEFITS

The FTC's behavior is not that difficult to understand, of course. Despite what many people think, bureaucrats are human beings, so they generally make decisions based on what will benefit them the most. In this respect they are no different from ordinary consumers and business people.

Eight favorite groups received two-thirds of all public participation funds doled out by the FTC in 1979.

Like those who toil in the private sector, bureaucrats are interested primarily in enhancing their salaries, working conditions, power over others, reputations, and prestige. Thus, they can be expected to be keenly interested in possibilities for action that increase their chances for promotion, raises, and growing influence.

Naturally, when the passage of Magnuson-Moss expanded the jurisdictional base of the FTC's power, the bureaucrats were not hesitant to move into the new territory. Adding to the momentum was the Carter administration's infusion of "consumer activists" into the upper levels of the bureaucracy. At the top, of course, was Michael Pertschuk, appointed FTC chairman in 1977. Pertschuk had been chief counsel to the Senate Commerce Committee when it was headed by Sen. Warren G. Magnuson, a favorite of the consumer movement. Pertschuk was the chief architect of many federal consumer laws, including the Magnuson-Moss Act.

Pertschuk's appointment delighted the consumer movement, for now they had one of theirs on the inside. The prospects seemed bright for advancing consumerism. The FTC and the consumer movement could work together for the mutual benefit of both parties. The agency would gain more bureaucratic turf by issuing new trade regulation rules under the expanded powers granted it by Magnuson-Moss. And the consumer groups would gain in prestige as regulations advocated by them were adopted by the FTC.

This symbiotic relationship was enhanced by the new ace up the FTC's sleeve—the public participation funding program. The FTC now had at its disposal a device whereby it could reward the very consumer groups that would be most likely to support its proposed new rules and regulations.

This is precisely what happened. The FTC has been very generous to a select few groups that share its penchant for more and more governmental regulation. The record shows that eight favorite groups received two-thirds of all public participation funds doled out by the FTC in 1979:

- *Center for Public Representation*—three grants for over $16,700 to testify in two proceedings, children's advertising (kid/vid) and thermal insulation;
- *Consumers Union/Committee for Children's Television*—three grants totaling over $39,000 on the kid/vid rule;
- *Americans for Democratic Action*—over $31,400 via five grants to support four rulemaking efforts (eyeglasses, over-the-counter drugs, health spas, and the funeral industry);
- *Community Nutrition Institute*—three grants for the kid/vid rule for a total of $33,368;
- *National Consumers League*—over $28,000 for two proceedings (care labeling and food advertising);
- *Action for Children's Television/Center for Science in the Public Interest*—over $32,700 from four grants for the kid/vid rule;

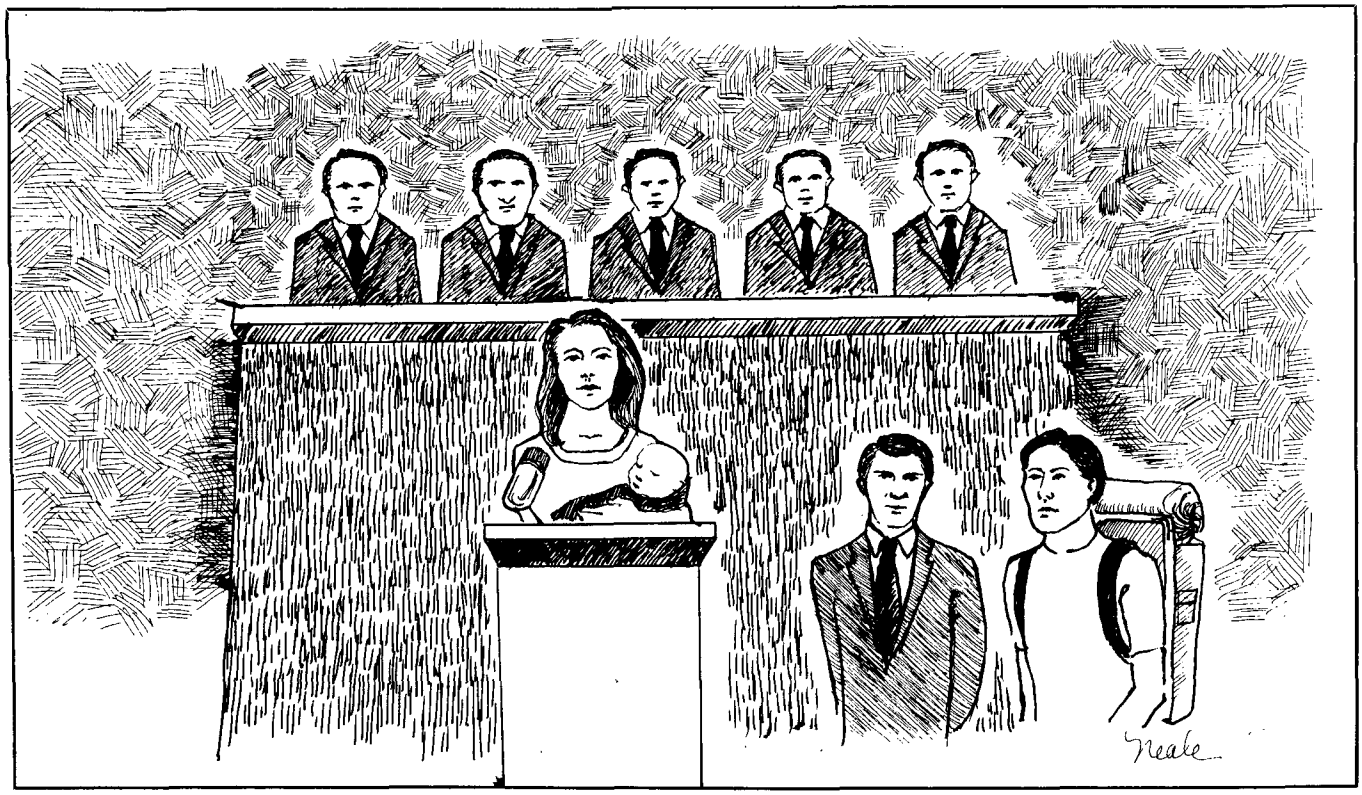

Illustration by Melissa Neale

- *Council on Children, Media, and Merchandising*—over $31,500 from five grants for three rulemaking proceedings (antacids, food advertising, and kid/vid);
- *Center for Auto Safety*—three grants for over $18,000 to support two proposed rules (mobile homes and used cars).

PAYING FOR EXPERTISE?

Aside from the incestuousness of this relationship between the FTC and its paid supporters, there are other questionable features of the intervenor program. Was this small corps of ideological soul-mates even qualified to speak out on particular rules under consideration by the FTC?

Take, for example, the Council on Children, Media, and Merchandising, an organization that seemed to depend on the bounty of the FTC for its sustenance. It consisted of a single individual and had no dues-paying members. But from 1976 through the middle of May 1979, this "organization" received $185,839 in FTC intervenor funding to participate in rulemaking proceedings on antacids, food advertising, over-the-counter drugs, and children's TV advertising.

The Council's founder and principal member, Robert Choate, was astute enough to take advantage of the legal plum handed to him by the FTC. Choate understands how the game is played in Washington: "Washington is an organization town. The first question asked of one going to his or her government with other than a purely personal matter is 'who are you with?' " So Choate created an organization to be with, consisting of himself and 13 others listed on a letterhead—an "ad hoc group," he called it in a letter to the FTC.

"We could easily create a class of kept critics," warned John Gardner.

So a clever Washington entrepreneur can create a paper organization. To qualify, however, for a large grant for extensive participation in FTC rulemaking proceedings, it would seem that an organization would have to have sufficient expertise. In fact, evidence shows that small groups that receive intervenor funding often end up farming out most of its participation functions to persons or organizations not eligible themselves for compensation—outside law firms, survey research companies, or individual experts-for-hire.

The Community Nutrition Institute, for example, received over $40,000 from the FTC to participate in the children's TV advertising proceedings. It was small—no paid members—and turned around and hired Opinion Research Corporation of New Jersey to conduct a personal opinion survey. The presiding officer in these FTC proceedings cited serious flaws and discrepancies in the survey, however. Likewise, the small San Francisco-based Safe Food Institute received over $12,000 to conduct a survey that was later found by the FTC not to be valid.

The problem with consumer groups as sources of expertise has been pointed out by Stephen Breyer in the *Harvard Law Review*. "Consumer groups, often in an adversary posture toward industry, tend to have the least experience of all," he noted. "Though they may appeal to competing elements within industry for help, they frequently are dependent upon the agency and outside experts for information."

And not just outside *experts*. According to C. C. Clinkscales, director of the National Alliance of Senior Citizens, proponents of the FTC's hearing aid rule were reduced to advertising for witnesses to testify before FTC hearings. In cities where the hearings were sched-

uled, they took out newspaper ads reading: "If you bought a hearing aid in the last 30 days, you were probably cheated. The U.S. Government wants to know about it." The National Council of Senior Citizens, sponsor of this ad, was given $46,734 in intervenor funding by the FTC.

MONIED INTERVENORS

Other groups receiving intervenor funds have been large organizations with substantial budgets. They could hardly be considered poor and in need of taxpayers' money to participate in the FTC's rulemaking proceedings.

Americans for Democratic Action, for example, has been awarded $177,000 in intervenor funding to participate in five separate proceedings. This group has a national membership in the neighborhood of 75,000 people and an annual budget exceeding $1.6 million.

The Sierra Club shared an award of $28,241 with four other environmental groups to participate in a rulemaking activity (the proceedings on thermal insulation). It has around 183,000 dues-paying members who come up with $25 a year. This gives the Sierra Club financial resources of at least $4.5 million annually.

The Environmental Defense Fund, one of the groups sharing the insulation grant with the Sierra Club, is able to maintain offices in Washington, D. C., New York City, Denver, and Berkeley, California. It takes a lot of money to keep four offices open in four major cities. Yet the FTC felt this organization needed taxpayers' funds to participate in its rulemaking process.

Consumers Union, another recipient of intervenor funding, has an operating budget of nearly $24 million. It has a staff of almost 400 and publishes the magazine *Consumer Reports*, with a circulation exceeding 2 million. This needy organization shared with another group $73,900 from the FTC just to participate in the children's advertising proceeding.

How can an organization with that amount of revenue be qualified to receive these funds? It is quite easy, Mark Silvergelb, director of CU's Washington office, told the Senate Subcommittee for Consumers in September 1979. "Consumers Union does not receive from its subscribers $23 million dollars primarily to support participation in either Federal Trade Commission rulemaking or any other forum." He went on to point out that Consumers Union's primary function is to publish its magazine, and it only devotes a small part of its operating budget to advocacy activities. "If you divert more than what is financially sound to nonrevenue producing activities [appearing before the FTC], you eventually reduce your ability to carry on both kinds of activities, revenue and nonrevenue producing, and you simply waste away the base of the organization's financial abilities."

Mr. Silvergelb is onto something, only he is probably not aware of its implications. If Consumers Union is concerned about diverting money into, as he calls them, "nonrevenue producing activities," what about the businesses that stand to be directly affected by the FTC's proposed rules? Won't *they*, out of necessity, maybe even to stay in business, have to divert money into nonrevenue producing activities—such as taking part in FTC rulemaking proceedings? If Mr. Silvergelb's group can't divert funds from Consumers Union without affecting its program, might not the businesses facing potentially devastating FTC regulation be up against the same problem?

The FTC could now reward the very consumer groups that would be most likely to support its proposed new rules.

WHAT THE BILL COMES TO

What has all this activity actually cost? During its first three years, the FTC intervenor funding program soaked up $1.8 million in taxpayers' money. The program virtually ground to a halt in mid-1979, as Congress kept the FTC on a short budgetary leash during nearly a year of grueling oversight hearings. The tough hearings eventually led to a rather mild FTC reform bill that slapped the agency's wrists for regulatory excess over such matters as the kid/vid rule but left its basic powers unscathed.

Since that time, however, few new trade regulation rules have reached the public participation stage. As a result, additional intervenor funding since mid-1979 has added up to only $187,000 so far, making the total expenditure since the program's inception just under $2 million.

This figure may seem like a drop in the bucket when compared with the billions our government seems determined to spend on all sorts of schemes and programs. Yet, the $2 million is just one part of existing and envisioned intervenor funding spread throughout the government (see box, p. 41). In the 96th Congress alone, nearly 50 bills to establish intervenor programs were introduced. Although one of its champions—Sen. John Culver (D-Ia.)—was retired to private life last November by his constituents, the concept lives on. Its new hero is Sen. Edward Kennedy (D-Mass.), who has been active in trying to create a government-wide intervenor funding program since 1976.

In addition to the seemingly small amount spent so far on intervenor funding, its end product, rules regulating business, can have tremendous cost impact upon the consumers of this nation. Increased business costs resulting from the rules are passed on to the consumer in the form of higher prices for goods and services.

Since consumers are also taxpayers, they end up getting stuck with both tabs—the original (tax) cost of the governmental process and the increase in the costs of goods and services resulting from the action of the government. Joyce A. Legg, a taxpaying consumer from Virginia hit the nail squarely on the head when she told Rep. Herb Harris (D-Va.) in a letter that, "as a consumer, I have not been fleeced one tenth as much as I have as a taxpayer."

EXPENSIVE RULES

A good example of how FTC rules can raise costs to the consumer was its trade regulation rule "Labeling and Advertising of Home Insulation," the so-called R-value Rule announced in August 1979. The purpose of the rule was to mandate the disclosure of insulation capacity in labeling, advertising, and promoting home insulation products. The R-value is supposed to be a scientific measurement of thermal resistivity—the higher the R-value, the greater the insulation power.

There was one fly in the ointment, however. Testing to determine R-values

THE TIP OF THE ICEBERG

The FTC is not the only federal agency with an intervenor funding program. The FTC program's only distinction is in having been around the longest. Among the agencies with active clones of the FTC's prototype program are the following:

Agency	*FY 1980 Spending*
Consumer Product Safety Commission	$25,033
Community Services Administration	Spending embedded in individual projects; no current total available (but spent $1.5 million in FY 1978)
Department of Energy	$2,834,000
Environmental Protection Agency	$7,215
Food and Drug Administration	$20,000
National Oceanographic and Atmospheric Administration	Spending embedded in individual projects; no current total available.

is a complicated process overseen by the National Bureau of Standards (NBS) and the American Society of Testing and Materials (ASTM). The science of testing various thicknesses of the many and varied types of insulating products is still in its infancy. Just before promulgating its rule, the FTC switched from one R-value test to another and imposed new mandatory testing requirements. Until recently, meeting these changed requirements was beyond the capability of existing testing equipment and methods, a point made to the FTC by the NBS, the ASTM, the Department of Energy, and other experts in the field of thermal-insulation testing.

In the 96th Congress alone, nearly 50 bills to establish intervenor programs were introduced.

The FTC turned a deaf ear to these protests and proceeded with the rule. If it were to go into effect without proper equipment and standards, warned Stanley L. Matthews, president of the Mineral Insulation Manufacturers Association, it "will increase the cost to consumers of insulation by as much as $90 million."

Fortunately, the 10th Circuit Court of Appeals put a hold on the FTC's rule; Congress reaffirmed that hold in its FTC reform bill. The National Bureau of Standards hopes to have standard calibrated equipment and samples available sometime this year.

In other recent action the FTC is proposing a set of rules requiring new warranties on the sale of mobile homes. "This is a classic case of over-regulation," says Walter L. Benning, president of the Manufactured Housing Institute. "Every one of our homes must be inspected by agents from the Department of Housing and Urban Development before they can be sold. No other house in America must go through such rigorous inspection." The FTC estimates that its rules would increase the cost of a mobile home by only $100-$125, but Benning figures it would be more like $2,000 per home.

The cost to the consumer of the FTC's originally proposed used car rule requiring dealers to inspect 14 systems of the automobile and to disclose the results on a window sticker ("OK," "Not OK," or "We Don't Know") was pegged, during Senate testimony, at between $1 billion and $10 billion, depending on how the cost of the inspection and any subsequent repairs is calculated. Evidently, the cost seemed too high even to the FTC, for in April 1981 it approved only a twice watered-down rule requiring used car dealers to put in writing whatever warranties are offered and to disclose "major defects."

Attempts by the FTC to break up the cereal industry would, if successful, have serious economic consequences. According to Phil Leonard, United Rubber Workers Political Education Director, it "will mean over 2,600 jobs will be lost" in the cereal industry alone. In addition, Mr. Leonard pointed out, if the FTC proceeded with its proposal to ban children's advertising on TV, jobs in the toy industry would be lost.

THE COST OF THREATS

Mr. Leonard's latter fear is moot because in its 1980 FTC reform bill Congress forbade the FTC from issuing any ban on children's television advertising. But the mere announcement by the FTC that it is considering a rule can have detrimental effects upon the chosen industry.

The agency has proposed a rule that would allow health club members the right to cancel their membership contracts, for any reason (or no reason at all), at any time during the life of the contract. This rule would have disastrous effects upon the health spa industry because its ability to raise both long- and short-term capital depends upon pledging accounts receivable, in the form of membership contracts, to banks and other lenders for credit. The FTC's proposed rule would, in effect, make a health club contract a useless, nonbinding, one-party document that no lending institute would accept as collateral.

According to the September 1979 Senate testimony of Richard Wood, president of the Golden Life Physical Fitness Centers, when the FTC announced its proposed rules, "Abruptly, the financing for my Odessa [Texas] center was withdrawn, leaving me with no source of short-term working capital or expansion funds. Despite a delinquency rate of only two percent, I could not convince bankers or finance company executives to reinstate my financing. They were frightened by the severe nature of the FTC rule which calls for giving consumers the unilateral right to cancel their retail installment agreement with me at any time for any or no reason."

Wood was forced to ask prospective consumers to pay in advance for the entire term of their contracts. As a result, business at Wood's Odessa facility has dropped 50 percent and it has not shown a profit. The Texas gym is being carried by Wood's other clubs in New Mexico.

Dr. Reynold Sachs, a professor of managerial economics at American University in Washington, D. C., testified that

"the proposed trade regulation rule would make it all but impossible for the typical health spa operator to obtain external debt financing . . . [and would] lead to an increase in the number and frequency of bankruptcies and insolvencies . . . . consumer prices would increase by an estimated 100 to 200 percent."

HITTING THE LITTLE GUYS

Other direct costs to business are more difficult to measure. For example, consider the cost involved in the sheer amount of paperwork involved in FTC rulemaking proceedings. The average record of a proceeding is 25,000 pages; some exceed 50,000 pages.

How can a businessman, especially a small businessman, wade through that morass of paperwork and still devote sufficient time to his business? Clearly, it is beyond the means of the average business owner. And although large corporations can hire teams of lawyers to do the job, such expenses are passed on to the consumer.

It is not the large corporation, however, that is the typical target of FTC activity. The FTC is a bureaucracy employing 700 lawyers that seems to thrive on hassling the small businessman. As Dr. F. M. Scherer, former director of the FTC's Bureau of Economics, told a 1976 hearing before the House Small Business Subcommittee: "What I have learned since joining the Commission staff is that many attorneys measure their own success in terms of the number of complaints brought and settlements won. In the absence of broader policy guidance, therefore, the typical attorney shies away from a complex, long, uncertain legal contest with well-represented giant corporations and tries to build up a portfolio emphasizing small, easy-to-win cases. The net result of these broad propensities is that it is the little guys, not the giants who dominate our manufacturing and trade industries, who typically get sued."

Among the indirect costs of FTC rulemaking is the time lost by businesses in trying to comprehend the proposed FTC action, fighting it, or both. Any time spent on these activities is time *not* spent on providing goods or services desired by consumers, which means higher prices for the ones that are provided.

The heavy-handed intrusion of the FTC into the affairs of business also generates a climate of fear. Zealous defenders of the regulatory agencies will applaud this, saying the businessman will be too scared to try any shady tactics. (This is a dubious assertion because anyone who is bent on fleecing consumers is not likely to be overly deterred, if at all, by some FTC regulation.) But the other side of the coin is that the climate of fear also makes entrepreneurs have second thoughts before developing and introducing new goods and services that may be better and cheaper than those currently on the market.

CURBING THE FTC

The FTC's use of public funds to hire advocates of its position on proposed industry-wide rules is a gross abuse of its powers and of the taxpayers' money. As Senator Simpson told his colleagues in 1979: "In a free society it is intolerable that the taxpayer should be required to finance private lobbying groups, who often take positions opposed by a vast majority of our citizens."

The FTC is still peopled by those who have admitted to carrying out a vendetta against whole industries.

Unfortunately, Simpson's words had little effect upon his Senate colleagues last year when they passed their weak-kneed FTC reform bill. When they finally approved the agency's budget the intervenor funding program was continued, with but two restrictions: the amount that any one group can be awarded is now limited to $50,000, and 50 percent of the grant funding must now go to business interests.

The reform bill took several other steps to restrain the FTC, namely allowing new FTC regulations to be vetoed by a vote of both houses of Congress and restricting somewhat the proposed FTC regulations on children's TV advertising, voluntary codes and standards, trademarks, cooperatives, life insurance, and funeral homes. In other words, the big boys with the political clout won a reprieve from the FTC. But Congress left the small businessman still exposed to the agency's awesome powers.

The FTC intends to use that power. After the legislation was signed into law, Chairman Michael Pertschuk told the Associated Press, "We intend to go ahead with everything Congress hasn't specifically stopped us from going ahead with." In spite of the change of administrations, the FTC is still peopled by those who have admitted to carrying out a vendetta against whole industries. They are ready, willing, and able to dream up new rules to regulate business, as Pertschuk has admitted. They can still dole out money, although now on a reduced basis, to hire groups to speak for their proposed rules and regulations.

Last February the Reagan administration sent shock waves through the Federal Trade Commission. The Office of Management and Budget recommended that the FTC's current fiscal 1981 budget be cut by 13 percent and its 1982 budget by 24 percent. OMB also urged that the intervenor funding program be abolished.

The latter, however, is a creature of the Congress. Congress conceived intervenor funding, gave birth to it, annually nourishes it with taxpayers' funds, and regularly contemplates cloning it for other federal agencies. It is up to Congress, not the OMB, to get rid of the little monster it created.

The time is rapidly approaching when, according to former Atty. Gen. Griffin Bell, "if the Republic is to remain viable, we must find ways to curb, and then to reduce, this government by bureaucracy." A good place to start would be to abolish the practice of intervenor funding. ◧

Morgan Norval is a Washington-based freelance writer. This article was sponsored by the Sabre Foundation Journalism Fund.
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Experience should teach us to be most on our guard to protect liberty when the government's purposes are beneficent. Men born to freedom are naturally alert to repel invasion of their liberty by evil-minded rulers. The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning but without understanding.

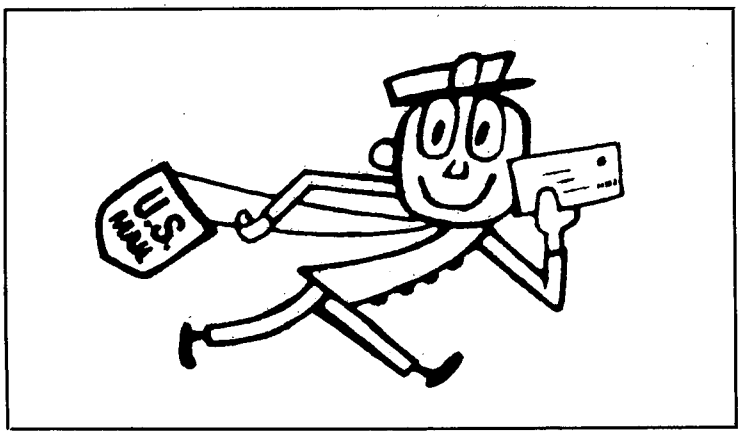
—Justice Louis Brandeis

By Byron Farwell

What Can Be Said for Nine Digits?

Zip!

WHO NEEDS THE PROPOSED nine-digit zip code? The Postal Service, says the Postal Service. Well... consider the source.



Nine digits can create just one short of a billion numbers. That's enough combinations to give every man, woman, and child in the United States his or her own personal zip code with more than 750,000,000 combinations left over. In fact, nine digits are enough to give a zip to everyone who has ever lived in this country. Every postman and every postal box could have a number and only six digits would be needed—seven at most.

If the zips were distributed geographically, nine digits still seems to provide an excessive number of combinations. The United States and all its territories and possessions contain only 3,619,623 square miles; each square mile could have its own zip code with 6,380,376 left over. On the other hand, why not go whole hog and use 10 digits? Then every quarter of an acre of mountain, desert, and plain could have a postal zip. A letter could be precisely directed to the crater of Mt. St. Helens, your favorite parking space, or a particular spot in the bottom of the Grand Canyon.

It seems curious that no one has suggested using longitude and latitude. Then, cities, towns, and states could be eliminated. This in itself would save postal workers an untold amount of labor. Those folk who find it tedious to read long words such as *Ohio* and insist we write *OH* would surely welcome this change.

Of course, if letters were used instead of digits, zips could be shortened considerably. Twenty-six letters can be made into a greater number of five-letter combinations than can nine digits. Of course, the Postal Service's reluctance to use letters of the alphabet is quite understandable. Some of the combinations of letters would spell words, you see, and some might be X-rated—old Saxon words that, although Judge John M. Woolsey described them as "words known to almost all men and, I venture, to many women," they would undoubtedly prove offensive to many. Even worse, the use of letters might lead some misguided citizens to think they could address letters in simple English.

Mr. Walter E. Duka, assistant postmaster in charge of communication, whose job it is to extol the virtues of the nine-digit zip, says that the greatest advantage to these magic numbers is that they will save postal employees 16,000 manyears of work. Allowing for weekends, vacations, holidays, and sick leave, we can reckon this to be about 31 million personhours. This seems a curious argument when compared with the number of hours ordinary citizens will spend looking up the numbers and writing or typing them.

Ignoring for the moment the exigencies of all businesses, industries, foundations, and bureaucracies, if just 50 million individuals mailed only 100 letters, checks, and packages in a year, and they required, on average, only a single minute to find and write down the nine-digit zips, they would spend more than 83 million personhours (or about 43,000 manyears, to use the preferred postal image). In other words, we of the hoi polloi would spend considerably more time than the postal workers would save.

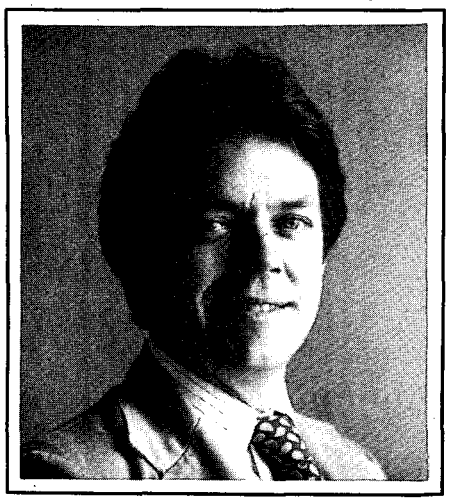
In fact, though, these are imaginary statistics. According to the US Postal Service, it processes 105 billion pieces of mail every year. Since much of this is machine-processed, let us assume that, on average, only *three seconds* would be required to find and apply the zip. This would still require 87.5 million personhours, or 45,000 manyears. Much as we all want to save postal employees their hard work, we can still wonder at the cost.

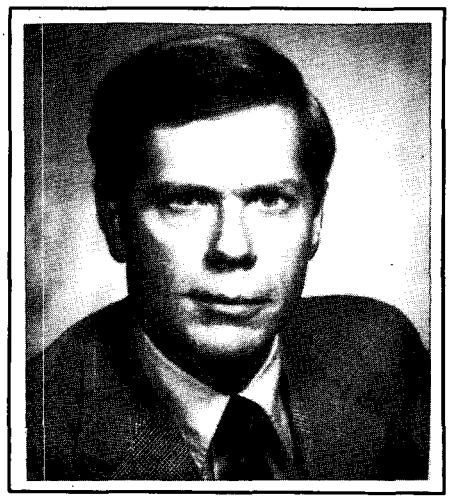
(Continued on p. 53.)

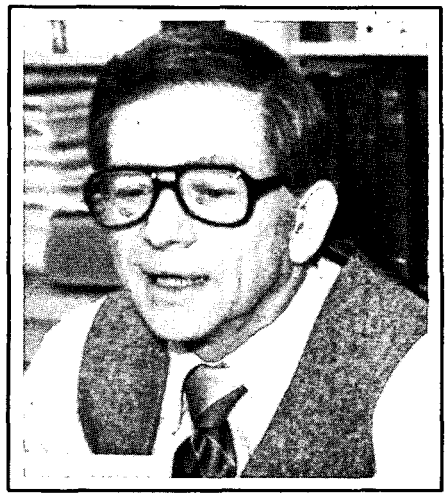
By J. William Middendorf, II

A Walk on the Supply Side

What exactly is supply-side economics, anyway?







ON JULY 14, 1977, Rep. Jack Kemp (R-N.Y.) and Sen. William Roth (R-Del.) took the concept of supply-side economics out of the arcane realm of academic theorists and put it into the real world of political policy debate. On that day, with few supporters, Kemp and Roth introduced legislation that would reduce tax rates by 30 percent across the board over three years. Little did the Keynesians realize that that bill, more than any single act, spelled the end of 45 years of dominance by the bankrupt economic principles of Lord Keynes.

Four years later, supply-siders dominate the new national administration. The revolutionaries have come to power. Not surprisingly, the Keynesians deny failure. The social engineers refuse to accept the facts that show their policies inadequate to dealing with the triple horrors of inflation, unemployment, and inexorably rising taxes.

Having gained the position from which to implement their program, the supply-siders now face a different problem. As supply-side theorist Paul Craig Roberts pointed out recently in the *Wall Street Journal*, "The problem [now] isn't in controlling the policy but in controlling the explanation of it."

ARGUING FOR SUPPLY-SIDE

Until recently, the supply-siders have been on the offensive in a guerrilla war. Now in power, they realize that they must broaden their base of public and political support if administration policy objectives are to be translated into legislative accomplishments and if *federal* objectives are to filter down to the state and local level. Other than a failure to properly implement supply-side policy in Washington, the greatest threat to proving the viability of this modern economic theory is that states, cities, and counties will fail to throw off the reins of Keynesianism.

If federal tax cuts were simply replaced with increased taxes in the states and localities—whether through inflation-induced "bracket creep" or through legislation—people would not enjoy the renewed economic freedom to save and invest in the ways needed to improve business productivity and increase employment. This could frustrate the federal program.

What do the proponents of supply-side policies have in their favor? Only the facts—the need for such policies and the proven success stories. What they are up against, however, is the danger that op-

ponents of supply-side economics will so distort the facts that political implementation of this important new policy will be impeded.

One of the greatest weapons of the opponents is semantics. Supply-side terms are often cleverly twisted, and negative-sounding generalized clichés are used to define the principles of this economic theory.

A current distortion is the term *unearned income*, which evokes images of fat capitalists in easy chairs clipping their coupons while looking out the bay windows of their clubs at the peasants below. "Earned income," as the distinction is declared by the IRS, is wages, salary, consulting fees, etc., involving your personal service. "Unearned income" is all other income, whether from a savings bank or dividends. The latter is therefore any income that required the postponement of current consumption for future income (expected to be greater).

It is this postponement of current pleasure that allows for building new competitive plants that create new jobs and increase the long-term demand for labor, thereby raising wages. Ludwig von Mises in the introduction of his book *Liberalism* called this an example of "reasonable [human] action." "Reasonable action is distinguished from unreasonable action in that it involves provisional sacrifices, since they are outweighed by the favorable consequences that later ensue."

Yet *unearned income* has joined the ranks of such incriminating phrases as *robber baron, bucket shop,* and *sweat shop* as the definition of capitalism. At the same time, anything opposed to capitalism has been blessed with the description *progressive, liberal, enlightened,* or *concerned.* This is the power of semantics, which can only be countered with the facts, told again and again.

SAVING VS. SPENDING

Let me begin with some undisputed facts that, collectively, support a conclusive case for sharply reduced taxation and government intrusion in the private sector—the heart of supply-side economics.

Fact 1. The rate of personal saving has dropped steadily throughout the 1970s and now stands at about 60 percent of the rate at the beginning of the decade.

The reason is very simple. Traditional types of saving are, today, money-losing propositions. Inflation and taxes combine to *reduce* the value of savings and accumulated interest. Rather than saving, therefore, people "invest" by consuming. Let's face it: people are a lot smarter than most policymakers think they are. They see the value of their savings being eroded, and they're doing something about it.

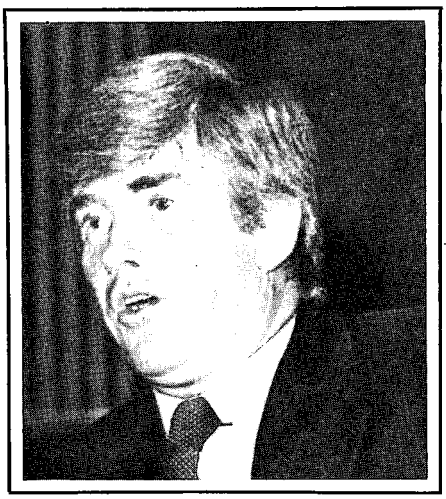
Unfortunately, in doing so traditional savers fuel inflation by bidding up the price of consumer goods and by denying the investment capital needed to create the new plants and tools for modernized basic industries. When it takes more than $30,000 of new capital to buy the machinery needed today to put one worker to work in our major industries, it is no wonder jobs are being lost to foreign competition using more modern technologies.

Fact 2. The total assets of money market funds recently topped $100 billion.

On the surface, this might seem to refute the fact that saving is declining. As in so many cases, the surface impression is an illusion. This huge pool of funds is invested exclusively in debt rather than in equity securities, and many of these instruments are sold by the federal government. Much of the pool comes from individuals who have switched out of equity investments in order to establish a hedge against inflation. Money funds are both riskless and nonproductive. They represent simply an investment shift into high-interest-rate vehicles and not an infusion of new capital. And, of course, money funds owe their very existence to inflation.

Fact 3. The rate of personal indebtedness has recently risen substantially faster than income.

The increase in consumers' use of installment credit parallels the drop in consumer saving. It's the buy-now-pay-later method of fighting inflation. But its impact is substantial. It not only drains credit from more productive uses but places a growing number of consumers into an increasingly precarious financial position.



Champions of supply-side economics (left to right): Arthur Laffer, Paul Craig Roberts, Norman Ture, Jude Wanniski, and Jack Kemp. "Until recently, they have been on the offensive in a guerrilla war."

BY HOOK OR BY CROOK

Fact 4. During the 1970s the so-called underground economy has tripled as a percentage of GNP as more and more people seek ways to avoid reporting income.

Prof. Peter Gutmann of Baruch College calculates that the underground economy jumped to nearly $265 billion in 1978, or from about 2-4 percent of GNP in the '50s and '60s to 12.6 percent in 1978. Through a host of illegal activities—illegal under the tax laws or in other respects—millions of people are finding ways to avoid reporting income. It must be assumed that the vast majority of these people are not hardened criminals. Given lower tax rates, many of them

would not seek to end-run the tax system. Therefore, inflated tax rates not only remove a large source of government income but actively encourage illegal activity.

Fact 5. The use of tax shelters has skyrocketed in recent years.

As tens of millions of people find their inflation-propelled income at or near the highest tax brackets, more and more are seeking legal ways to shelter income. There are no aggregate figures on tax shelters, but one small piece of data illustrates the problem. According to the *National Tax Shelter Digest*, the total annual investment via limited partnerships has jumped from $1.8 billion in 1974 to a projected $9.6 billion in 1981. And that's just the tip of the iceberg. Only a relatively small number of sophisticated investors use oil and gas or equipment-leasing partnerships as a means of tax postponement. The number of people who have recently bought investment real estate or tax-free bonds would, I suspect, be a real shock.

Money funds are both riskless and nonproductive; they do not represent an infusion of new capital.

And remember one thing about tax shelters: they are investments designed solely to reduce taxes. Clearly, the drive to shelter income distorts market signals that direct investment into the most productive enterprises.

Tax shelters are not a new response to excessive taxation, however. In 1920, then-Treasury Secretary David Houston noted that high tax rates left over from World War I were "rapidly driving the wealthier taxpayers to transfer their investments into the thousands of millions of tax-free securities." Houston went on to add that "the effective way to tax the rich is to adopt rates that do not force investment in tax-exempt securities" (in effect, to reduce tax rates and, almost by definition, increase tax revenues).

Fact 6. Unemployment is today stuck at levels that, in the 1950s and '60s, we would have considered disastrous. Reported unemployment among the poor, the young, and minorities is close to being a national scandal. (Many of the underprivileged are being induced into such underground-economy activities as narcotics and street crime.)

Again, the reason is simple. A stagnant economy, starved of productive capital drained off through excessively high tax rates and government deficits, provides business with no ability and no incentive to modernize and expand and thus to hire and train new workers. Simultaneously, a combination of high public benefits and high tax rates gives the unemployed little incentive to look for jobs.

WHAT MAKES PEOPLE WORK?

All of these facts suggest a theme: People, whether potential investors or potential employees, need incentives to participate fully and productively in the economy. Without incentives, they will find ways to drop out. They will borrow and consume rather than save; they will shift capital into nonproductive uses; they will seek illegal or unreported or sheltered income to avoid the big tax bite; they will opt for leisure rather than work.

And what sort of incentives do people need in order to participate productively? The most powerful of all is simply for individuals to be able to enjoy the fruits of their labor, to see a positive improvement in their standards of living, and to have the freedom to spend or invest their incomes without the disincentives inherent in high taxes and high inflation—in other words, to keep their eyes on resource enhancement rather than on tax avoidance.

Past policymakers have assumed that the economic pie is fixed in size, that we can only argue about which groups in society get how large a slice. As a result, today an incentive for one is viewed as a penalty for another. This once-fashionable philosophy has been written about by Prof. Lester B. Thurow of MIT in his book, *The Zero-Sum Society*, in which he argues for redistribution of wealth by mandatory government programs in a permanently stagnant society. This bankrupt philosophy is also espoused by the Club of Rome, the Brandt Commission report on North-South relations, the United Nations' New International Economic Order, and many environmentalists.

Supply-siders say that is *wrong*. Rather than fighting over the size of slices, we should be—and can be—enlarging the pie. The result will be larger slices for everyone, including the poor, minorities, the unemployed, the better-off, and even government. That is the essence of supply-side economics.

CLEAR RECORD

And history shows it works. This is not economic snake oil. During the 1920s, under prodding from Treasury Secretary Andrew Mellon, taxes imposed during World War I were drastically reduced. The result was one of the most prosperous decades in American history. Real GNP rose 54 percent; output per man hour rose 66.5 percent.

For those who believe a cut in tax rates would benefit the rich at the expense of the poor, it is instructive to note the actual tax impact of the Mellon cut on those with the highest incomes. In 1920, 3,649 tax returns showed incomes of $100,000 or more and generated $321 million in taxes. By 1928, nearly 16,000 tax returns reported incomes of $100,000 or more, and government revenue from them, at substantially reduced rates, had more than doubled to $714 million. Part of the difference simply reflects increased wealth generated by a growing economy. But another important factor is that at lower tax rates the wealthy simply had no further need to divert income to a host of tax shelters.

The most powerful incentive is for individuals to be able to enjoy the fruits of their labor, to be free to spend and invest their incomes.

The Kennedy tax cut of 1963-64 had similar results. Personal tax rates were cut an average of 20 percent across the board. Far from reducing government income, the tax cut so stimulated economic growth that tax revenue grew substantially. Of particular interest to the social engineers, tax revenue from the wealthy increased steadily throughout the 1960s. Unemployment dropped by nearly half between 1961 and 1969, while unemployment among black males dropped from 11.7 percent to 3.7 percent in the same period.

Also take capital gains rates, for example. At 100 percent the tax revenues to

the government would necessarily approach zero, of course. In 1969 capital gains rates were nearly doubled from a 25 percent tax rate. Revenues plummeted from this source, and of course the venture capital that finances new industries substantially dried up. In 1978 the Steiger Amendment reduced the maximum capital gains rate to 28 percent, and tax revenues increased rapidly while venture capital formation revived. Where venture capital exists, new technology and new plants follow.

Other examples abound. In Puerto Rico a series of tax cuts totalling 15 percent between 1977 and 1980 has resulted in one of the greatest periods of growth in the island's history. Proposition 13 in California, passed in 1978, has helped push the state's growth well beyond the national average. The phenomenal growth of the Japanese economy since World War II was fueled in part by a steady stream of 11 cuts in overall tax rates between 1954 and 1974.

The point is proved also in the reverse. As Jude Wanniski points out in his epic work, *The Way the World Works*, a good laboratory case of supply-side theory is found in the neighboring countries Ghana and the Ivory Coast since 1960. Ghana imposed heavy taxes (especially at the margin, with progressive disincentives at the higher brackets), while the Ivory Coast did not. Although both started with similar natural resources, ethnic structures, and per capita incomes, today the Ivory Coast has many times the per capita income of Ghana.

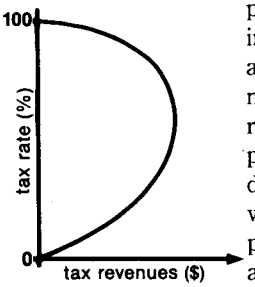
Sweden, often seen by social engineers as the model economic structure, has some of the highest personal tax rates in the world. As a result, the Swedish economy is in total stagnation. No less an expert than Gunnar Myrdal, a major architect of the Swedish social economy, has stated that the Swedish income tax system must bear much of the blame.

In Italy, another country that leads the pack in personal income tax rates, it is estimated that as much as 50 percent of all income comes from the underground economy. High taxes have made tax avoidance a major Italian challenge and virtually guarantee that investment is channeled into unproductive uses.

The point of these examples is clear. Supply-side policy works. To state it even more strongly: no other economic strategy can create a growing, innovative, and increasingly productive economy that will spur investment, increase jobs, and cut inflation.

Supply-side pioneer Arthur Laffer has explained the fundamental principle of taxation that lies behind supply-side economics in a remarkably simple and graphic manner. His "Laffer curve" is not only an economic truism but also a very basic statement of behavior.

What Professor Laffer shows is that people respond to incentives. Up to a certain point marginal tax rates—the rate paid on the next dollar earned—will not keep people from earning and investing savings to increase earnings even more. Beyond that point, when taxes are pushed up by inflation or by law, more and more people will seek ways to hide income or will simply decide that working is not worth the effort, since the rewards are not great enough.



Rather than fighting over the size of slices, we should be—and can be—enlarging the pie.

WHAT KIND OF CUT?

Of course, it is argued by the Keynesians and the social redistributors—the so-called Robin Hood groups—that a tax cut is fine, but only if the benefits go to those in the lowest income brackets. In fact, such a tax cut would virtually guarantee increased inflation by encouraging consumption while doing little to promote production, or the supply of goods and services to be consumed.

An even-handed reduction in tax *rates* would have quite a different impact. At lower income levels, there clearly would be some additional consumption. In addition, however, part of that excessively high level of installment debt would be paid off, which in itself is a form of saving. At higher income levels, saving and investment would be powerfully stimulated, since a larger proportion of the income from investment would be tax-free. In addition, the incentive to hide or shelter income would disappear, and, in becoming more lucrative, investment would become more productive. More important, those at lower income levels would be given a real incentive to increase earnings by working harder and working more productively.

Finally, there are those who would cut business taxes while leaving personal taxes high. This, too, would be counterproductive. True, it would give existing industries and existing firms more money to plow back into existing businesses. But it would do nothing to encourage entrepreneurs to invest in wholly new ventures. It would provide no incentive for new companies to enter existing industries, thus stimulating competition and innovation. Business tax cuts are needed, but only in conjunction with personal rate reductions. The combination will maximize incentives to earn more across the board.

FREEDOM FRAMEWORK

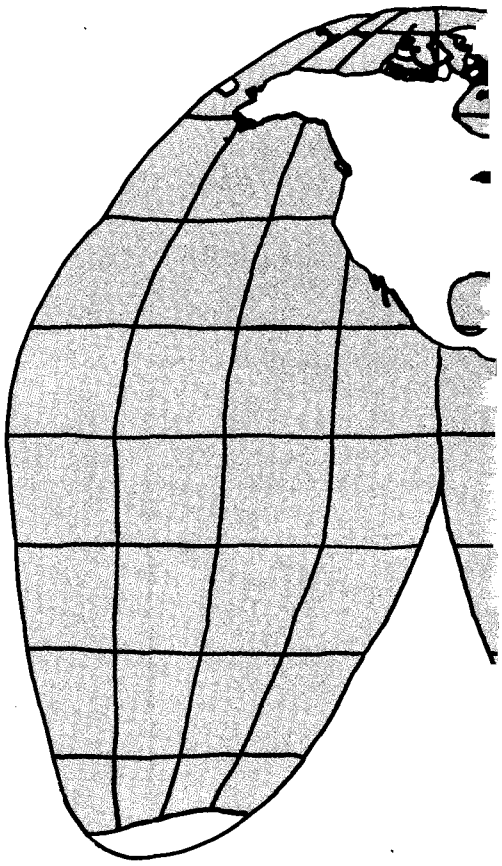
This is the supply-side *economic* story. It needs telling. The point, simply put, is that government, at all levels, must avoid erecting barriers that destroy incentives to innovate, to improve productivity and encourage the retooling of American industry. Further, government must remove ill-conceived economic regulations so that enhanced competition will achieve the desired results. And government must be made predictable so that businesses and individuals will be able to make plans for the future.

None of this implies that government does not have a role to play in protecting the rights of consumers, workers, and investors. It means simply that government policies must permit innovation and should not be so inflexible, capital-consuming, and diverting that business simply throws up its hands and ceases to innovate.

Overall, supply-side policy is a declaration of economic independence, of personal freedom. As such, it provides the framework in which the economic pie can grow, benefiting every person in our still-free nation. ◻

J. William Middendorf, II, is the president of a financial firm and of the Committee for Monetary Research and Education. He was formerly the US ambassador to the Netherlands and was recently appointed American States. This article is adapted from his presentation at the Ninth Annual CMRE Conference, "Money, Budgets, and Taxes."

SUPPLY-SIDE SUCCESS STORIES



Far from being untried, supply-side economics has achieved considerable success around the world.

BY BRUCE BARTLETT

SURELY THE MOST AMAZING story in the economic history of the world since the Second World War is the remarkable resurgence of West Germany and Japan as world economic powers, following the almost total destruction of their economies by war. In large measure, their success can be attributed to tax policies which encouraged growth. Moreover, the poverty of Third World nations and their restrictive tax policies stand in stark contrast to the successes of Germany and Japan. Although the United States has given away billions of dollars in foreign aid since World War II, it has failed to alleviate world poverty. The only way that that can be done is by encouraging poor nations to reduce high tax rates and to adopt policies which encourage economic growth.

HOW GERMANY DID IT

When the war ended and Germany became occupied by Britain, France, the Soviet Union, and the United States, the nation was split between East and West—a division that continues to this day. The eastern half, under Soviet occupation, was turned into a Communist state, with total State control of the economy. West Germany, by contrast, developed a free economy under the leadership of Konrad Adenauer and Ludwig Erhard. However, it was an uphill struggle. When the Western Allies occupied Germany, they disagreed about what actions should be taken with respect to the economy. So they decided simply to continue the status quo, maintaining all the existing taxes and economic controls. Erhard, who was West Germany's economic minister, apparently hit upon a ploy to unleash the German economy. He surmised that although he was prohibited from making any changes in the existing controls without approval of the occupying powers, there was no law that said he could not *abolish* controls. According to Erhard:

> *It was strictly laid down by the British and American control authorities that permission had to be obtained before any definite price changes could be made. The Allies never seemed to have thought it possible that someone could have the idea, not to alter price controls, but simply to remove them.*

This Erhard did. Simultaneously, he instituted currency reform, which halted the rampaging inflation, and moved to cut taxes and restore freedom throughout the economy.

Until the middle of 1948, a 50 percent marginal tax rate on personal income became applicable as soon as an individual's income passed the 2,400-Reichsmark level (about $600), and a 95 percent rate was applicable to income exceeding 60,000 Reichsmarks (about $15,000). It was noted that without a thriving black market, outside the reach of tax authorities, combined taxes on income and property might have equaled or exceeded total income. Indeed, it was estimated that half of total income taxes went unpaid.

Beginning in 1948, however, West Germany began steadily reducing tax rates and instituting special tax incentives for saving and investment. As the table on p. 50 shows, by 1958 the highest marginal tax had been reduced from 95 percent to 53 percent, while the personal exemption and the threshhold income at which the 50 percent marginal rate was reached had been steadily increased.

The result? West Germany now has the fourth-largest gross national product of any nation in the world, amounting to $640 billion in 1978, and a per capita GNP significantly larger than in the United States.

It is generally believed that the Marshall Plan was a significant factor in Germany's rise. In fact, however, the Ger-

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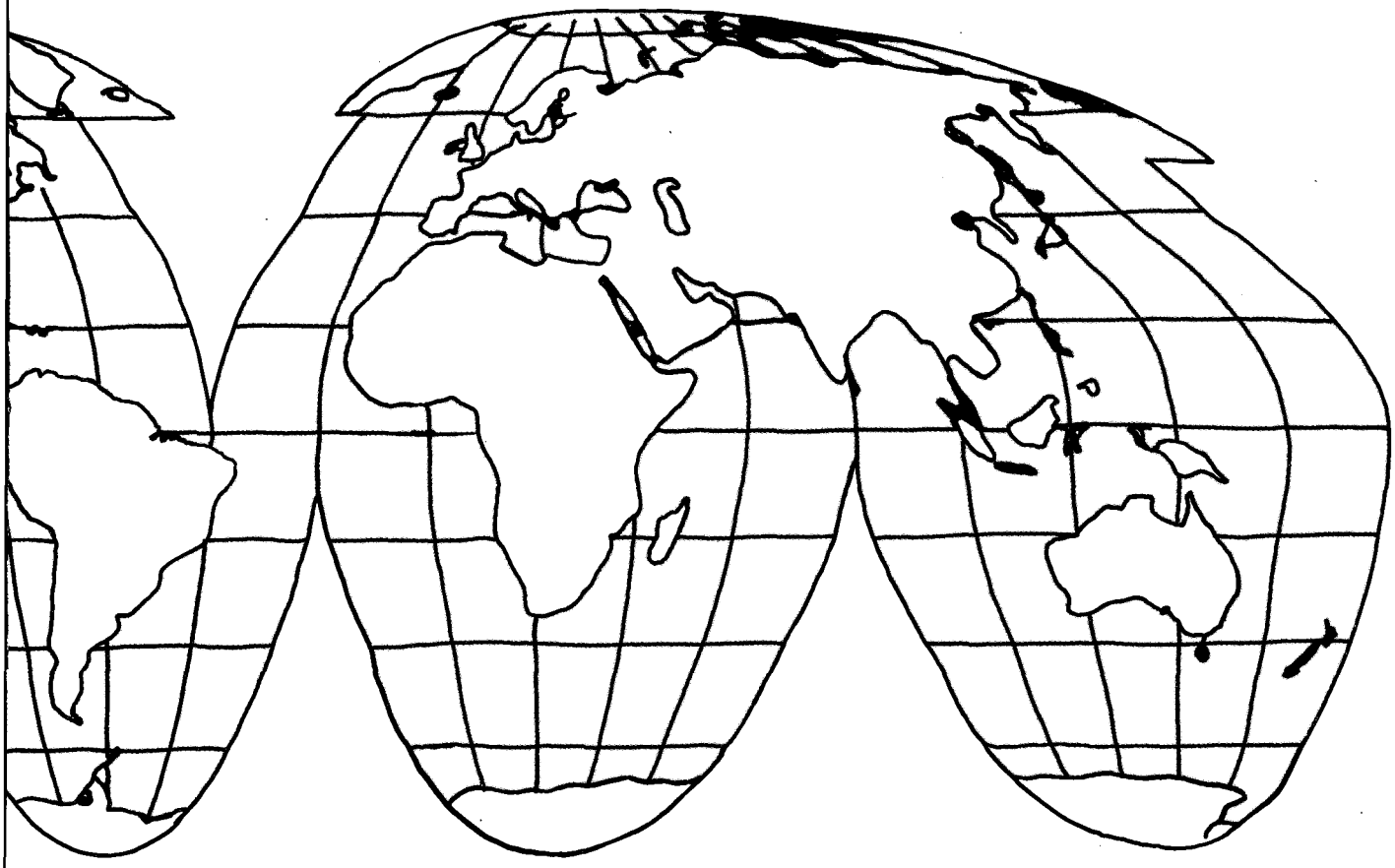


man recovery began before Marshall Plan aid arrived. Moreover, Germany received significantly less aid than did France or the United Kingdom. Consequently, one must conclude that, while the Marshall Plan was helpful, it was not necessary for Germany's recovery.

Lastly, it should be noted that, although the German revival took place during the heyday of Keynesian economics, Keynesian principles were explicitly repudiated by Erhard and the other German policymakers. As economist Egon Sohman has observed, "West Germany's impressive recovery took place under policies that were in many respects the direct antithesis of post-Keynesian prescriptions for rapid economic growth."

JAPAN'S SUCCESS

The situation in Japan was different, of course. Not only did Japan have a different history and culture, but it was under the sole occupation of the United States, with Gen. Douglas MacArthur in almost total control of the country following the end of war.

During the initial occupation period, 1946-49, the principal problem was halting the spiraling inflation. Unfortunately, the initial tax reforms imposed by the occupation authorities were totally unsuited to an inflationary environment. Among these initial reforms were (1) higher and more-progressive individual income tax rates and lower exemptions, (2) higher corporate and excess-profits taxes which did not allow taxpayers to adjust depreciation allowances for inflation, (3) a heavy capital levy on wealth, and (4) an increase in the number of sales and excise taxes, including a turnover, or value-added, tax.

The poverty of Third World nations stands in stark contrast to the successes of Germany and Japan.

These disastrous tax changes soon led to a breakdown of the tax-payment system. Tax evasion was widespread; tax collectors became as hated as the prewar secret police; businesses were falling apart because they could not replace capital; and revenue was seriously lagging behind expectations. It was these factors which led General MacArthur to invite a distinguished group of American tax specialists to come to Japan and rewrite its tax system. The group became known as the Shoup Mission, after its leader, Prof. Carl Shoup of Columbia University.

The first thing recommended by the Shoup Mission was a drastic reduction in tax rates and an increase in exemptions. The top bracket was brought down from 85 percent to 55 percent, the personal exemption raised from 15,000 to 24,000 yen, and a tax credit for dependents of 12,000 yen per dependent instituted. With regard to business, the main contribution of the Shoup Mission was in revising depreciation schedules to account for inflation. In addition, the excess-profits tax was eliminated and the corporate tax rate reduced to 35 percent. Lastly, a large number of technical and administrative reforms was proposed and carried out. At its conclusion, the Shoup Mission declared that Japan now had one of the best tax systems in the world.

These reforms gave Japan's economy a big boost. Since then, the Japanese government has carried forward the growth-oriented tax policies instituted by Shoup. Because of the enormous Japanese economic growth of the postwar era—which has given Japan the third-largest GNP in the world: $969 billion in 1978—the government has received an enormous influx of tax revenue.

INDIVIDUAL INCOME TAX RATES IN WEST GERMANY, 1946-66

(Reichsmarks or Deutschemarks)

Period	Personal Exemption	Income at which Marginal Rate Reaches 50%	Highest Marginal Tax Rate	Income at which Reached
1946–mid-1948	600	2,401	95	60,000
mid-1948–1949	750	9,001	95	250,000
1950-52	750	20,001	95	250,000
1953	750	36,001	82.25	220,000
1954	800	45,001	80	220,000
1955-57	900	125,001	63.45	605,001
1958-66	1,710	78,420	53	110,040

Source: Karl Hauser, "West Germany," in *Foreign Tax Policies and Economic Growth* (New York: Columbia University Press, 1966), p. 147.

ESTIMATED ANNUAL TAX CHANGES IN JAPAN, 1950-74

(Yen in Billions)

	Individual Income Tax				Corporate		
Fiscal Year	Exemptions	Rates	Special Tax Changes	Total	Rates	Other	Total
1950-53	− 272	− 86	−28	− 386	+ 31	−56	− 25
1954	− 29	0	− 2	− 31	0	− 3	− 3
1955	− 23	− 13	−18	− 53	− 14	+ 2	− 12
1956	− 23	0	0	− 23	0	+14	+ 14
1957	− 40	− 85	+15	− 110	− 2	+24	+ 22
1958	0	0	− 6	− 6	− 20	− 2	− 22
1959	− 28	− 12	+17	− 23	0	− 4	− 4
1960	0	0	0	0	0	0	0
1961	− 38	− 23	+ 5	− 56	0	−40	− 40
1962	− 25	− 23	− 2	− 50	0	− 1	− 1
1963	− 32	0	−35	− 67	0	+13	+ 13
1964	− 66	0	− 8	− 75	− 5	−54	− 59
1965	− 92	0	+26	− 65	− 28	−28	− 57
1966	− 101	− 53	− 4	− 158	− 50	−49	− 99
1967	− 142	+ 11	+38	− 93	0	−30	− 30
1968	− 135	− 11	0	− 125	0	0	0
1969	− 142	− 41	0	− 183	0	+ 2	+ 2
1970	− 173	−131	+15	− 289	+ 97	−22	+ 75
1971	− 286	−107	− 22	− 415	0	+12	+ 12
1972	0	0	−32	− 32	0	+31	+ 31
1973	− 335	0	−40	− 375	0	+27	+ 27
1974	−1,467	−260	−56	−1,783	+424	−72	+352

Note: Totals may not add due to rounding.
Source: Joseph A. Pechman and Keimei Kaizuka, "Taxation," in Hugh Patrick and Henry Rosovsky, eds., *Asia's New Giant: How the Japanese Economy Works* (Washington: Brookings Institution, 1976), p. 325.

However, the Japanese government has not used this revenue to boost the size of the public sector but has instead returned this "fiscal dividend" to the people in the form of tax reduction, which in turn has stimulated further economic growth. As the table above shows, between 1954 and 1974, individual income tax exemptions were increased every year but three, individual income tax rates were reduced eleven times, and corporate tax rates were cut six times.

One last point: Japan's remarkable postwar economic performance is all the more amazing when one considers its small size (143,000 square miles—about the size of Montana), its enormous population (114 million in 1977—793 people per square mile), and its almost total lack of natural resources, particularly energy. The only thing which detracts from Japan's record is the even more amazing performance of its Asian neighbor Hong Kong.

HONG KONG HOW-TO

In many respects, Hong Kong is the greatest example of the success of the free market in action the world has ever seen. The British crown colony occupies a mere 404 square miles, with most of its 4.5 million population cramped into 12 percent of that area. Population density exceeds 400,000 people per square mile in many areas. And the colony must import 85 percent of its food, most raw materials, and all capital equipment.

Nevertheless, between 1948 and 1977 the per capita income of Hong Kong increased from $180 to $2,600 per year. Between 1960 and 1976 its real per capita GNP increased by an amazing 6.4 percent per year (compared to just 3.3 percent per year for West Germany and 2.4 percent per year in the United States).

One important reason for Hong Kong's success is its extremely low taxes. The maximum tax rate on profits is 17 percent, and the maximum tax on individual incomes is 15 percent. There is no tax withholding in Hong Kong, and the estate tax has a maximum rate of only 18 percent on estates of over $3 million. Writes economist Alvin Rabushka:

> *Hong Kong has, to my knowledge, the lowest standard rate of tax on earnings and profits of any industrial state. . . . The official line is Gladstone reincarnated: a narrow tax base and low standard rates of direct taxation facilitate rapid economic growth which generates high and ever-increasing tax yields. These revenues, in turn, finance an extremely ambitious program of public expenditure on housing, education, health, and welfare services, and on other forms of social and community services, with virtually no need to resort to loan finance.*

In short, Hong Kong is an almost perfect example of the Laffer Curve in action—low tax rates generate high rates of real economic growth, leading to increased revenues which can be used for social welfare while maintaining low tax rates. Conversely, one finds that welfare states which rely on high tax rates are invariably experiencing serious economic difficulties, imperiling existing social welfare programs. A perfect example is Sweden, the welfare state par excellence.

SWEDISH SECOND THOUGHTS

For many years, American liberals considered Sweden something of an ideal State. It seemed to be living proof that individual liberty, a high rate of economic growth, and a wide range of social welfare benefits could coexist. However, in the mid-1970s it all began to fall apart. The enormous tax burden, which consumes more than 60 percent of Sweden's gross domestic product; inflation; and collapse of the social contract which kept Sweden's labor unions in line for 40 years all worked together to bring its economic growth to a standstill. In 1977 Sweden's GNP actually declined 2.5 percent.

The Swedish Employers' Confederation recently estimated that a family of four with an earned income of $4,600 per year in 1978 would net $14,117 when all government welfare benefits were added. On the other hand, a family of four with an earned income of $23,000 would also net $14,117 after taxes were subtracted. Thus, increasing one's income from $4,600 to $23,000 would have absolutely no effect on the family's net income—an implied marginal tax rate of 100 percent.

Such incredibly high taxes cannot help but seriously diminish the incentive to work. As a result, Sweden's Nobel laureate in economics, Gunnar Myrdal, an architect of the Swedish welfare state, recently suggested a complete overhaul of the tax system; a drastic reduction in personal income tax rates, with reduced revenues to be made up by raising sales taxes. Myrdal writes:

> *My main conclusion is that income taxes are bad taxes from several points of view. . . . For the majority of people. . . a high and progressively increasing marginal tax rate must decrease the willingness to work more than necessary. . . . Through the lowering of the income tax, the irrational direction of investment from production to durable consumption goods would not be so severe. . . . The fact that the consumption tax is a tax on living standard instead of income, and therefore puts a premium on saving and capital accumulation, should be liked by most everyone, especially in these times.*

Of course, Sweden would have killed its economy long ago had it not adopted some tax policies favorable to growth. It draws very high taxes from individuals but leaves its industrial concerns relatively alone and motivates them highly. Sweden gives businesses very generous depreciation allowances; it taxes inventory profits lightly; it eliminated the double taxation of corporate dividends; and it generally taxes corporations less than in many other countries. In 1972, for example, Sweden collected 3.9 percent of its tax revenue from business income taxes, compared to 7.1 percent in Great Britain and 11.2 percent in the United States. However, it is not enough just to be lenient on corporate income. At some point, there must also be some compensation for individual incentive, because individuals, not corporations, are ultimately the driving force in any economy.

Unfortunately, many Third World countries attempt to duplicate the tax systems of countries like Sweden without realizing that Sweden's system only worked for as long as it did because it already had a well-developed capital structure and a highly skilled and disciplined work force and was able to capitalize on some fortuitous circumstances, such as remaining neutral in World War II while making a fortune on sales of raw materials to the Nazis. Thus these Third World countries impose on subsistence economies tax systems designed for modern industrial states and then wonder why no growth occurs and no revenue is raised. When they turn to "development experts" for advice, they are invariably told that high, progressive income taxes are just the thing. As one such expert, Barbara Ward, recently wrote, "No nation has even half-way peacefully entered the modern world without a progressive income tax."

Sweden would have killed its economy long ago had it not adopted some tax policies favorable to growth.

Economic consultant Jude Wanniski has pointed out that highly progressive tax structures are doubly harmful because worldwide inflation ends up making already high marginal tax rates even higher. He therefore argues that most of the Third World is high on the upper end of the Laffer Curve, with a few exceptions. He points to the Ivory Coast, where the highest marginal tax rate is only 37.5 percent, and Venezuela, where the highest rate is 25 percent, as success stories. However, the two greatest successes in recent years among underdeveloped countries experimenting with the free market must be Chile and Puerto Rico.

THE CHILEAN CASE

Since the overthrow of Pres. Salvador Allende by a military junta led by Gen. Augusto Pinochet, Chile has been treated as an outcast among nations. Unfortunately, this has led people to ignore or dismiss the remarkable economic experiment taking place in Chile.

When the junta took over in 1973, inflation was *1,000 percent* a year, and the country was virtually bankrupt. In March 1975 President Pinochet was approached by his government economists. They told him that the collapse in world copper prices would cost Chile $1 billion a year in lost export earnings, that the increase in world oil prices would cost Chile some $300 million in higher imports, that this would reduce Chile's GNP by 13 percent, and that if he attempted to spend his way out of trouble, inflation would exceed that of the Allende years. With Chile's considerable foreign debt, the country could not expect outside help.

Pinochet decided to adopt an austere economic policy and appointed a group of University of Chicago-trained economists—dubbed the "Chicago Boys"—to run the show. They put the brakes on the money supply to stop inflation, took controls off interest rates to encourage saving, ended capital controls, cut taxes and indexed them to inflation, and eliminated all existing tariffs—which averaged 100 percent—and substituted a flat 10 percent duty on imports.

There was considerable doubt that this program would work. Many of Chile's businesses needed high tariffs to survive. When forced to compete, a lot of them went under. But those that survived and learned to compete prospered. Chile's largest appliance manufacturer tells this story: "In 1974 we had 5,000 workers and a productivity of only $9,000 a year per worker. Now we have 1,860 workers and a productivity of $43,000 per worker, and we are finally showing a profit."

Some $5 billion in foreign investment

flowed into Chile between 1975 and 1980. The public sector's share of gross domestic product fell from 43 percent in 1973 to about 30 percent in 1979. Four-fifths of the companies nationalized by Allende have been sold back to the private sector, and those nationalized industries that are left are more tightly managed and beginning to show profits. Inflation is down from 1,000 percent to about 30 percent per year. A recent report by the US Embassy in Chile concludes:

> *In its reliance on market economics, Chile appears in the vanguard of a world-wide neo-conservative response to the menace of growing inflation. . . . Inflation remains Chile's major economic problem, however the three interrelated problems of unemployment, high interest rates and low fixed capital investment are on the way to being solved. . . . Most U.S. private-sector observers are inclined to believe that the current military regime will be followed within 10 years by a stable, middle-of-the-road government reasonably favorable to free enterprise and foreign investment. It has been noted that the constituency for the current liberal economic program is growing.*

Of course, Chile continues to have a repressive policy toward political dissent, and many freedoms that are taken for granted in the United States and Western Europe are denied. However, the criticism of the Chilean regime generally misses a critical point: it is possible to have a free-market economy without political freedom, but the converse is not true; you cannot have political freedom without a free economy. Thus, while Chile may be a long way from being a liberal state, it is at least half-way closer than the vast majority of other nations, which have neither political nor economic freedom.

PUERTO RICAN PROGRESS

Puerto Rico is a "purer" example of the Laffer Curve in action because its success stemmed directly from Arthur Laffer's influence. During the 1970s Puerto Rico's economy stagnated, its growth in real GNP going from a 13 percent increase in 1969-70 to a 2.5 percent contraction in 1975-76. Unemployment rose and private saving was nonexistent. In 1974 Gov. Hernandez Colon invited liberal Keynesian economist James Tobin to come to Puerto Rico and offer economic advice. Tobin advised an expansion of government spending financed by higher taxes. Colon then proposed a 5 percent surtax on Puerto Rican incomes, which the islanders dubbed *La Vampirita,* or "Little Vampire."

In 1976 Romero Barcelo of the New Progressive Party was elected governor, ending almost 40 years of rule by the Popular Democratic Party. Romero's principal campaign promise was to eliminate *La Vampirita,* which he did in January 1977. He also promised further tax cuts and growth-oriented policies. As Treasury Secretary Cesar Perez commented, "We cannot talk about raising taxes; we must raise revenues by restoring prosperity."

In 1978 Laffer was invited to Puerto Rico to study the island's fiscal system and offer recommendations. Laffer advised income tax rate reductions to get the top marginal rate down to 50 percent, a reduction in the corporate tax rate from 45 to 25 percent, a reduction in government expenditures as a percentage of GNP, and other economic reforms.

"The things Laffer told us would happen are happening," admits Puerto Rico's Governor Romero.

In 1978 the 5 percent World War II victory tax was eliminated. In 1979 there was a flat 5 percent reduction in income taxes. By early 1980 these cumulative tax reductions had so expanded Puerto Rico's economy that tax collections in 1980 were running 13.5 percent ahead of 1979. "It is extremely difficult to say it is all due to the tax cuts," Governor Romero says, "but the things Laffer told us would happen are happening. In fact, he guaranteed it would happen."

Based on the success so far of a 15 percent cumulative tax reduction, Puerto Rico enacted another 15 percent income tax reduction, to take place between 1980 and 1982. In defense of the new program, Governor Romero said, "I'm sold that the [Laffer] theory is correct. He wanted me to take a much bigger step initially but I couldn't. I felt I was charged with the responsibility of balancing the budget and I couldn't gamble on a 15% cut in one chunk. I said if it is going to show results with 15% it will show results with 5%."

Interestingly, there are more than 100,000 more taxpayers on the rolls in 1980 than in 1979, the result of lower tax rates which discouraged taxpayers from cheating. This evidence must, therefore, strongly support the Laffer view that tax rates can reduce revenues by discouraging work and encouraging tax cheating.

THE STORIES' MORAL

These examples support the view that the best thing the industrialized countries can do to help the Third World is to encourage them to adopt free-market policies, rather than to promote more foreign aid programs. As David McCord Wright puts it:

> *We must remember, first, that the whole social surplus of Europe, Russia, and America could not make more than the tiniest dent on the poverty of the world. To a large extent, therefore, our aim must be not to give people goods, but to help them toward a situation in which they can improve their own productivity. . . . The main issue is not building a few projects, but transmitting to the underdeveloped nations something of Western dynamism and democracy. The astounding feature of the last two centuries has been the sustained rise and spread of the ideas of economic growth and the ideas of personal freedom and democratic government. . . . Here is a growth impulse that has not lasted merely for the lifetime of one or two great rulers, not been confined to a small clique, and is still going. Can we assert categorically that there are many roads to such a result?*

Some have even argued that foreign aid is detrimental to growth. They assert that because foreign aid is invariably a government-to-government transfer, its main effect is to strengthen the public sector in underdeveloped countries—the opposite of what would actually do some good. "Foreign economic aid," writes Milton Friedman, "far from contributing to rapid economic development along democratic lines, is likely to retard improvement in the well-being of the masses, to strengthen the government sector at the expense of the private sector, and to undermine democracy and freedom."

The common thread running through

all the economic success stories of the postwar era is a heavy reliance on the private sector and a government which cut taxes and allowed free markets to operate. Socialist and Keynesian policies have not proven effective. Thus Gottfried Haberler writes:

> *In all developed industrial countries policies of economic recovery, stabilization, and growth have been much more successful after the second World War than after the first. But it is difficult to attribute this to the spread of Keynesian thinking. It so happens that none of the economists and economic statesmen who were largely responsible for all the assorted postwar economic miracles can be called a Keynesian: not Camille Gut in Belgium, nor Luigi Einaudi in Italy, nor Ludwig Erhard in Germany, nor Reinhard Kamitz in Austria, nor Jacques Rueff in France. The greatest economic miracle of all, the Japanese, seems to have been performed by conservative Japanese governments and statesmen with the help of some ultra-conservative American advisors, while the numerous Keynesians and Marxo-Keynesians had to look on in impotent opposition.*

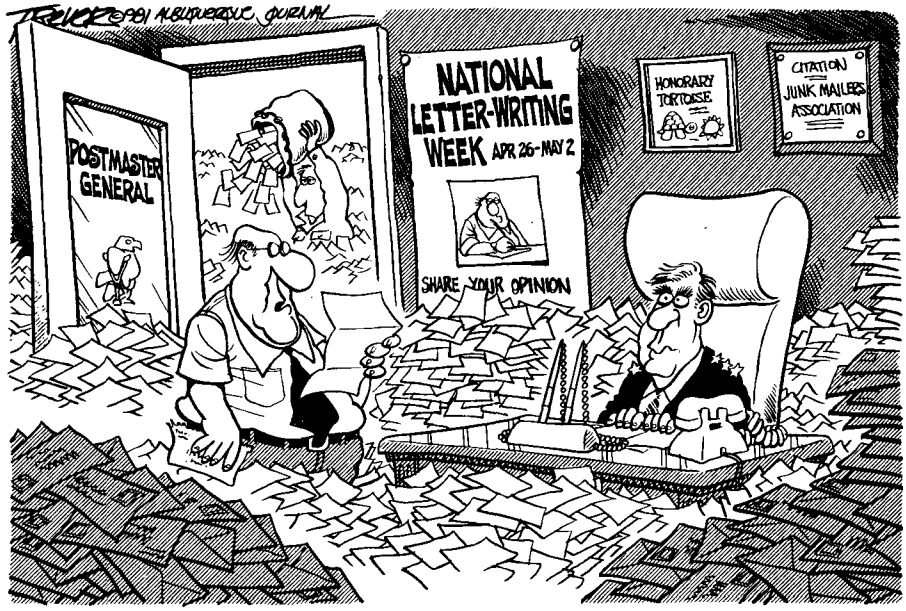
There seems to be no escaping the conclusion that the best path to economic growth lies in low taxes and free markets. The successes of Japan, West Germany, Hong Kong, Chile, and Puerto Rico are living testaments to this fact. ◧

Bruce Bartlett is deputy director of the Joint Economic Committee of Congress and the author of Cover-Up: The Politics of Pearl Harbor. *This article is excerpted by permission of the publisher from his just-published book* "Reaganomics": Supply Side Economics in Action *(Arlington House).*

Farwell

(Continued from p. 43.)

What is difficult to understand is why it is considered efficient and in the national interest for citizens and their institutions to spend nearly three hours in order to save a postal worker one hour. Something seems quite wrong. Logic seems to have wandered off into an Alice in Wonderland scene in which those we employ to serve us now demand that we serve them—reasoning by which our servants' time is deemed more valuable than ours. But perhaps postal workers are no longer public servants.



"SO FAR THE RESPONSE IS ABOUT EVENLY DIVIDED—HALF ARE TICKED OFF AT THE 18¢ STAMP, AND THE REST ARE TELLING US WHAT WE CAN DO WITH THE 9-DIGIT ZIP CODE!"

Businesses will be hurt worst when the nine-digit scheme becomes a reality next October. Every business with a mailing list will have to change every address, and the Postal Service estimates that there are about eight billion address listings. Even if companies can change an address for only 20 cents, the change will cost $1.6 billion. It's no good saying this is a one-time expense; that was what the Postal Service said when it introduced the five-digit zips. These unwanted business expenses will, of course, be passed on to consumers. That's us.

Just because the Postal Service hopes to save $550 million annually by 1987 (this amount only if 90 percent of us correctly and consistently use the nine numbers) does not mean that we users of the service will pay less. Savings in one area are not to be paired with expenditures in other areas, however closely they may be related. Actually, we are going to be asked (forced, in fact) to pay 28 percent more in postal rates.

One reason for this is that the Postal Service has already invested $887 million in automated equipment that works best if nine-digit numbers are used. (No explanation is offered as to why such equipment was purchased before Congress authorized nine-digit zip codes.) Furthermore, the postal bureaucracy plans to ask Congress for an additional $1 billion dollars (that's a ten-digit number) for more automated equipment. Although the Postal Service's previous experiences with automated equipment have demonstrated its inability to use it either to cut costs or to improve service, it takes more than experience and proven incapacity to impress bureaucrats.

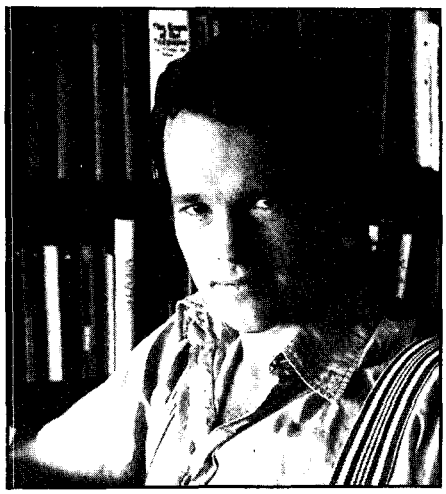
It would be difficult to find many people outside of the Postal Service who look forward to nine-digit zip codes. Even the Postal Workers' Union has howled its objections. Nearly every major and minor newspaper in the land has condemned the scheme in editorials, and more than a hundred congressmen have begged the postmaster general to desist. In spite of this roar of protest, and in the face of all the evidence to the contrary, the postal bureaucrats claim that we will all adore their nine numbers once we get used to them. They have conducted a survey. (What would we do without surveys?) Happily, they discovered—as have all pharmaceutical companies—that surveyors can tell clients what the questioneers want to hear.

As a result of one small survey of 1,000 people (out of 240 million), Postal Service bureaucrats claim there will be "wide acceptance" of their nice new nine-digit numbers. All who believe this, clap your hands, and Tinker Bell will come back to life—along with the three-cent postage stamp. ◧

Byron Farwell is the author of six books and the mayor of Hillsboro, Virginia. His articles have appeared in Harper's, *the* New York Times, *and the* Washington Post.

Traffic Light Reflections

viewpoint



James Dale Davidson

Almost every time I pull to a halt at a stoplight, my eyes become beady. I calm myself by recalling aphorisms from fortune cookies; remembering aloud the speeches of manic characters in novels, such as Sinclair Lewis's Martin Arrowsmith, "Pray God preserve me from haste."

Divine intervention is not needed to preserve a driver in any American city from haste. The people who maintain the roads have seen to that very nicely, thank you. Ever since the first traffic light was installed at the intersection of Euclid and 105th Street in Cleveland on a balmy August day on the eve of the First World War, motorists have been stopping dead in their tracks for up to three minutes at a time at intersections.

If I were a fair-minded writer I'd admit that traffic lights do serve a function. You can't just have a motorized game of chicken at every intersection. Nor do you want to expose a human being to the hazards of standing in the intersection to arbitrate the conflicting ambitions of the various drivers. This is especially so as the work is dangerous; and every time someone gets knocked over, he or his family must be supported forever. No doubt about it, the traffic lights are a far more reasonable expedient than hiring hundreds of thousands of men and women with red flags to police urban intersections.

In the beginning, especially, the automatic or semiautomatic regulation of intersections must have been a distinct improvement over the expense of the traffic cop on the one hand and playing grown-up bumper car on the other. When the technology was new, its inventors and manufacturers would have leapt into the entrepreneurial breach characteristic of government provision of a service and somehow fiddled the traffic department into buying first a few, then many thousands, of traffic lights.

The problem is that, while governments can be induced to adopt technology—and indeed, government invests more capital for each employee than the private sector does—governments seldom have an incentive to adopt the *appropriate* technology. This is the case with traffic lights.

It is well known that most traffic lights are mal-programmed. The vast majority are of a primitive sort that, in establishing the right of way, do not take account of the actual flow of vehicles. The effect is to waste vast amounts of fuel as well as incredible amounts of productive time. A 1976 study by a congressional committee showed that two billion gallons of gasoline could be saved over a decade by the most modest of traffic light reforms—simply synchronizing the signals.

It goes almost without saying that the incredible fuel savings would show up in another form as cleaner air. Many millions of pounds of carbon monoxide and hydrocarbon pollutants would never find their way into the atmosphere if the lights were properly programmed.

It should be a matter of more than passing interest that they are not. After all, politicians of every stripe and hue have been bellyaching for the last decade about the importance of saving energy or finding new energy supplies. Numberless speeches have been made about the need to treat the environment with due reverence. And even without the reverence, common sense compels an appreciation for the virtues of removing soot from the air you breathe. Yet no politician has ever said, "Let's improve traffic control technology."

It would be easy to do. Governments throughout the country have a near-monopoly on the operation of road beds. They could change the traffic lights with little or no risk of outraging powerful special interests. So why don't they do it?

The proximate answer is that it's never even occurred to them. The reason that it hasn't is that they have little incentive to organize the flow of traffic efficiently. They have the same income whether traffic flows smoothly or is obliged to stop, mindlessly, always, at each intersection.

There is no better evidence of this than the traffic control on the plexis of streets that surrounds the US Capitol. There, at any time of night, a traveler is obliged to stop . . . wait . . . start . . . stop . . . wait . . .

A traffic jam is as absurd and unnecessary as a department store that ran out of goods every evening at four o'clock. No, it is more absurd. No department store management, no matter how benighted, could fail to notice eventually that it needed to invest in greater inventories. Government transportation managers have failed to notice this 365 days a year in every city in the United States, and most travelers—from the 18-wheel-semi driver to the hillbilly balladeer come round for the 13th time to "take poor Mary home"—have paid for it.

It's not fun. It's not necessary. If those who operated the streets had their income tied to some proxy for their utility to travelers, traffic control devices would be upgraded to facilitate passing through the intersection. In most cases, this would require stepped up investment in modern technology, including computers and traffic sensors of the sort that backward public highway departments have failed to employ.

Government *is* a klutz. The problem is not just that it spends too much (as it does in most areas). It also spends too little (as in the case of traffic lights). Both ways, the spending is inefficient and inappropriate and has high social costs. Thinking about it in the queue, nine cars from the intersection and knowing that I'll never get through this light, I ride the clutch and mutter another unspeakable prayer.

Jim Davidson is founder and chairman of the National Taxpayers Union. His most recent book is The Squeeze.

taxes

Watching Out for the IRS

By Timothy Condon

Now that 1980 tax forms have been filled out and filed, we can take a breather and look at the broader picture. 1980 was a pretty good year for taxpayers, what with the elections tossing out a number of big-spending inflation lovers, to be replaced with more-conservative senators and representatives. But some of the best news of all has been little heard—possibly because the issue may raise its ugly head again in the future.

On March 11, 1980, with much fanfare and breast-beating, a couple of truly dangerous bills were introduced into the US Senate. Similar ones found their way into the House of Representatives. S 2402 was a bill "to insure the confidentiality of information filed by individual taxpayers with the Internal Revenue Service. . . *and, at the same time, to insure the effective enforcement of Federal and State criminal laws and the effective administration of justice*" (emphasis added). S 2403 would provide the same "protections" for "third-party recordkeepers summoned to produce records of taxpayers."

Now, in the wonderland of federal lawmaking, things are seldom, if ever, what they seem. A good case in point is the "Bank Secrecy Act of 1970." That vicious piece of legislation was trumpeted as being for the "protection of privacy of banking records." Its true purpose—and what it subsequently has done—was to force banks to photocopy each and every check written by their customers and hold those copies for five years. Why? So that "authorized government representatives" could examine them, pursuant to tax investigations, criminal investigations. . . and who knows what else.

Well, these two current bills are of the same ilk. Their stated purpose is to "put the Internal Revenue Service back in the role as crime-buster." You know, like Al Capone and Frank Costello, two old-time mobsters jailed for income tax evasion when the feds couldn't prove any other violations. Said Georgia Sen. Sam Nunn, who introduced the bills in the Senate, "Al Capone would laugh in his grave and wish he were back in business today rather than in the 1930s if he knew about the legal restrictions and the present policies and procedures of the IRS."

From Florida Sen. Lawton Chiles, another of the sparkplugs behind the bills: "The IRS used to be a feared and respected agency among criminals. . . . Unlike the old days when the IRS worked hand-in-hand with law enforcement agencies, the agency now shies away from any activity that goes beyond simple tax assessment and collection. In fact, the IRS frequently follows a policy of delay and non-cooperation, providing only minimal assistance and information to Federal law enforcement agencies."

Now why would that be? After all, Internal Revenue is the most dangerous and activist government agency in collecting information and *using* it against millions of people. Why would they quibble about helping out another government police agency, especially when there's potentially good PR to be gained?

Well, it seems the culprit here is the Tax Reform Act of 1976 and the protections it contains for taxpayers by restricting IRS disclosure of income tax return information. That law was passed in the wake of the Watergate revelations, which showed, among other things, "enemies lists" of people targeted for income tax audits, illegal IRS phone taps, and undercover operations involving prostitutes, pilfered briefcases, and the like. Apparently the limits placed on disseminating tax information have been effective, because the IRS has embarked on a campaign of harassment and obstruction of *other* government agencies, even when their cooperation would probably not have fallen under the 1976 act. This is a perfect example of government bureaucrats applying as much pressure as possible in just the right places in order to force legal changes they desire.

One example of the IRS successfully blocking an ongoing investigation involved the "Case of the Trash Can." It seems that both the IRS and the Drug Enforcement Administration (DEA) were independently investigating a chemist suspected of illegally manufacturing recreational drugs. Before the DEA could get to it, the IRS had an agent go through the chemist's trash can. Material was gained indicating the chemist was indeed involved in illegal drug manufacturing.

When the DEA heard of this, they said they wanted the useful trash. The IRS refused, countering that the trash was gathered "in connection with the chemist's tax return," which was baloney. The DEA then got a judge to issue a subpoena. The IRS refused to honor it, citing the Tax Reform Act. Only a court order would free the trash, they said.

Were the IRS and DEA working together? The IRS didn't have to withhold that information, but perhaps they wanted to build up a record of problems to show why the privacy rules of the 1976 act needed to be modified—that is, why the IRS needed fewer restrictions on its actions. Even if they weren't working together, the actions of the IRS served to create an additional governmental constituency desirous of changing the provisions of the 1976 act.

So? Did the IRS-inspired bills pass? Can we be thankful that the tax agents are back in their historical role as "crime busters"? No, thank God. The ability of the IRS to pass around tax return information has not been increased. In fact, bills S 2402 and S 2403 died with the end of the 96th Congress. And with a much-changed Senate and House, now less friendly to the whims of the IRS, chances are those bills won't be resurrected. Not for a while, at least.

One last thing needs to be said. Those immensely dangerous bills were introduced and pushed by Senators Nunn of Georgia, Percy of Illinois, Chiles of Florida, Cohen of Maine, DeConcini of Arizona, and Long of Louisiana. Thankfully, supporters Talmadge of Georgia and Ribicoff of Connecticut are gone. The rest deserve to be defeated in their reelection bids for the Senate. Remember their names. They tried to increase the already immense powers of the IRS, an agency, to quote Sen. Paul Laxalt, "totally out of control, running roughshod over taxpayers and making a joke out of our rules of laws."

Do you have a tax question? Mr. Condon may have the answer. Send your query along to REASON Taxes, Box 40105, Santa Barbara, CA 93103.

(A limited number of reader questions can be answered in print; personal replies cannot be made.)

Timothy Condon, a member of the Florida Bar, is a tax specialist with the Condon & Vollrath Tax Service in Tampa, Florida.

spotlight

Gold's Standardbearer

By Patrick Cox

Lewis Lehrman was not appointed to a post with the Reagan administration, though his name came up repeatedly. M. S. Forbes of *Forbes* magazine describes Lehrman as "a tough successful businessman turned economic thinker. He has the brains and money market experience to make a substantial contribution to the formulation and execution of policy." The *Wall Street Journal* wanted to see him in the Federal Reserve or the Treasury. Rowland Evans and Robert Novak, in the *Washington Post*, rated him higher than William Simon or Alan Greenspan.

Scuttlebutt has it that the reason for Lehrman's omission from the list of economic advisors was a schism within the free-market camp between Friedman monetarists and supply-siders. The big bone of contention is one four-letter word—G-O-L-D. The monetarists want a restricted money supply first and foremost, achieved through a conservative Federal Reserve policy. Lehrman, a supply-sider, wants a return to the gold standard, and he has emerged as one of the most articulate and persuasive of gold's advocates.

Lewis Lehrman's grandfather was an immigrant grocer. Lehrman's father, also a grocer, saved his pennies to send his son to the best school. So Lewis, with the help of scholarships, went to Yale and then Harvard for his master's degrees in history and government. In the process, he developed an interest in one Jacques Rueff, a French philosopher and economist who advised Charles de Gaulle and inspired his distrust of paper money and enthusiasm for the concept of a common market for Europe. Lehrman eventually visited Rueff in Paris and came to be treated like the son Rueff never had.

Lehrman taught for a short while at Harvard but decided that he loved the world of business, and its rewards, more than the world of academia. Drawing on his experience in the family grocery business, he applied the techniques of high-volume, low-overhead supermarkets to the drug business and was instrumental in the establishment of the highly successful Rite Aid Drug Store chain, which now has over 1,000 stores in 16 states. In 1972 he started another ongoing business, the Lehrman Corporation, which works with small companies to supply venture capital and investment counseling.

Lehrman abdicated the presidency of Rite Aid in 1977 for the chairmanship of the executive committee in order to give more attention to the Lehrman Institute, a public policy think tank he established with the fortune he made in the '70s. Located in New York, the Lehrman Institute has attracted attention for its work on both national and New York State issues.

Lewis Lehrman

Free-market economist, author, and superstar Jude Wanniski described a different aspect of the Institute when he told REASON that it was Lehrman's "quickest way to get a world-class education, where you could choose the topic you wanted to know about and then have the best minds from all over the world travel to your table, where you could sit and listen while everyone debated and argued."

Today, the institute supports a number of ongoing research projects by its fellows and nearly 100 conferences a year. Lehrman attempts to bring into his conferences, in addition to the usual professorial sort, businesspeople, lawyers, bureaucrats, and a host of nonacademics. One of the institute's major projects is the translation and publication of at least four volumes of Jacques Rueff's work. Lehrman is convinced that Rueff will play the part in the '80s that John Maynard Keynes played in the transformation of international economic policy in the '30s.

Rueff was a classical liberal, and Lehrman labels himself in the same way. He is a believer in a government limited to "the defense of persons and their property." When it comes to specific issues, he is sometimes more conservative than libertarian. "There are areas where I get into disagreement with my libertarian friends," he says, "such as the question of addictive drugs and the more advanced forms of pornography." He is chairman of the Economic Advisory Council of the New York Republican State Committee and is seriously considering running for governor in 1982; people think he could win.

That Lehrman can make waves is evidenced by the now-famous "economic Dunkirk" paper in which Director of the Office of Management and Budget David Stockman and Rep. Jack Kemp (R-N.Y.) called for Reagan to declare, immediately upon taking office, a national economic emergency. The paper was written and issued as the result of two memorandums written by Lewis Lehrman. They warned that unless Reagan acted quickly in three areas—monetary reform, budget restraint, and a substantial reduction in marginal tax rates—his plans would fall on the same rocks as have dashed Margaret Thatcher's policies. In addition, Lehrman renewed his call for the reinstitution of the gold standard.

What does "the gold standard" mean? First, government would relinquish its monopoly on issuing money. Second, the Bureau of Weights and Measures, as with the inch or the quart, would set a standard of measurement. "In the absence of a government monopoly on money," explains Lehrman, "private money could compete. I have no doubt that gold money would emerge as the choice of the market. It has over and over in commercial civilization." Lehrman confidently told REASON that we will see the gold standard established before 1990. "The 1988 elections will be fought over the gold issue."

Lehrman says that his wife and five children are the most important things in his life. He is in top physical shape and has run the New York Marathon. His philosophy is American Revolutionary; his appearance, European royalty. Jude

Wanniski laughed as he told of watching Lehrman on his estate in Connecticut. Lehrman keeps a stable there and runs the hounds with his family. According to Wanniski, Lehrman could appear in any men's magazine, wearing bright red riding pants and jacket, black English riding boots and crop, "except for his lucky felt fedora, easily 20 years old." Wanniski goes on, "He's a radical, a revolutionary. But you don't see that behind the gentry. He's my kind of bomb thrower."

Patrick Cox is a free-lance writer.

arts & letters

movies

Fort Apache, The Bronx
The Last Chase
The Postman Always Rings Twice
Excalibur
Tell Me a Riddle

Reviewed by John Hospers

• A CURIOUS COMBINATION OF INGREDIents is interwoven in **FORT APACHE, THE BRONX.** In structure it's an engrossing old-fashioned melodrama, and though it sags a bit occasionally with (of all things) too little action and too much idle talk, it does sustain one's interest fairly well. It marks the return of Paul Newman to a solid three-dimensional role for the first time in years; and its most distinctive feature is its background, the South Bronx, probably the most extensive slum in America.

Police Precinct No. 41 is a fortress—"Fort Apache"—against a hostile civilian environment, consisting largely of pimps, prostitutes, drug pushers, and petty criminals. The film opens dramatically when a drugged prostitute puts the make on two policemen in a patrol car and, rebuffed, shoots them both dead at close range. But if we think it's going to be a murder mystery, we're disappointed: *we* know who did it, but the police never find out. In the mismanaged attempt to track down the culprit, however, we get involved in numerous other incidents concerning police life in Fort Apache, notably the deliberate killing of a man whom the police throw off a roof, which is observed but covered up. The police aren't exactly dedicated and incorruptible ("If you have any trouble with him, I'll testify I saw him pull a knife on you," says one), nor are the hoodlums they arrest portrayed as thoroughly vicious—there should be no complaints from residents of the South Bronx on that score. Conditions of slum life are certainly not treated with great hope or optimism, but neither are they handled with cynicism, self-pity, or despair. The stance of the film is rather that of "neutral realism," and a sense of humor keeps one's spirits up through the depiction of squalor and human tragedy.

Nowhere does anyone give any indication of how the area got the way it is. That the chance of a prison term for even a major crime is vanishingly small; that city rent controls reduce to zero anyone's motivation to provide decent upkeep for the buildings; that many persons set fire to their own apartment buildings because of a city ordinance that anyone who loses his domicile to fire gets to the top of the list of applicants for rent-controlled apartments—these and many other relevant facts are never brought to light, and doubtless the "liberal" stars of the film, Newman and Ed Asner, would reject such facts as irrelevant, alleging instead that not enough federal money had been plowed into the housing projects.

While we are given no inkling of the causes of it all, we are not spared the visual squalor of the region—the acres of rubble of what used to be well-built apartment units, resembling now the remains of a bombing raid; the all-pervasive filth and degradation; the endless tackiness; the piles of garbage everywhere; and even, in a closing shot, the unclaimed body of the murderess, as if enclosing the picture in a frame and lending to this scene of chaos a final unity and order lacking in that which was portrayed. To those who read the news magazines, the film tells nothing new, and yet the story is worth telling, although the lessons to be gleaned from it—what happens when the State intervenes in the economy of a city or nation—are never mentioned, and most audiences will go away without so much as a single glimmer of insight.

• **THE LAST CHASE** OCCURS MORE than 30 years in the future. The United States has run out of petroleum, and no vehicles have been on American highways for years—we're not told whether the shortage is real or contrived by government, but in view of the strong antigovernment stance taken in the film, the second would seem to be the more plausible explanation. The controllers pictured in the film would be happy to contrive an oil shortage in order to control their subjects more.

This is a film in the tradition of *Capricorn One*—not as chillingly tense, but thoroughly absorbing. The government is now virtually omnipotent; its bureaucrats control everything and everyone, including weaponry and countless means of electronic detection. But a race-car hero of former days still yearns for the happier times he remembers, and when he is threatened with an Orwellian "correctional institute" for speaking out of turn, he finds a way of fueling his old race-car buried in the basement, and, along with a high school electronics wizard who cherishes a freedom he has never known, he sets out from the east coast to the west, where in California an independent underground has formed, one which occasionally gets through on government-owned television screens with such sayings as "You are not alone" and "Freedom will return." The film then provides an east-to-west tour of deserted American highways, plus a plane flown by a pilot from the old days (Burgess Meredith) who is appointed to shoot down the speeding car. Laser installations are activated to destroy the car and everyone in its immediate environment.

Chillingly portrayed are the bureaucrats who control the nation. "Extremism in the defense of virtue is no vice," says the head bureaucrat, ringing a change on an old Goldwater speech. Even he is more human than his flunkies, who do his bidding with unquestioning obedience and with no qualms. But the head bureaucrat has the best lines: "A car, actually traveling across the country—don't you see, it's a *symbol*! People going where they want when they want! It could upset our whole regime of peace and order!" There are lots of things it

could upset, and this film, by giving us a terrifying vision of an Orwellian future, may do its valiant bit to curtail the creation of such a future in the present.

• A NEW VERSION OF JAMES CAIN'S **THE POSTMAN ALWAYS RINGS TWICE**, unlike the 1946 version, is set in the depression era as the novel itself is; moreover, it takes advantage of the "new explicitness" in films, an apparent plus because intensity of passion is the very core of Cain's novel. Yet the new film doesn't begin to match the old one, which starred Lana Turner and John Garfield. The main reason is that there was a real "chemistry" between the lovers in the old version, and the sex, which couldn't be shown then, was suggested by every gesture, nuance, and facial expression. In fact, sexuality can usually be conveyed more effectively when suggested than when shown in graphic detail.

In the new version the explicitness is there, but it's practically impossible to believe that Jack Nicholson has any passionate involvement with the new "heroine," Jessica Lange. He's too busy acting, even hamming it up from time to time as if he were still doing *The Shining*. Nicholson is always better at playing the detached spectator of events than one passionately involved in them—but detachment is exactly the characteristic that the protagonist in Cain's story should *not* project. As a result, the actors go through the motions, but the degree of involvement that would lead them to murder just isn't there. *Postman* without passion is *Hamlet* without the Prince of Denmark.

• **EXCALIBUR** IS, IN MORE THAN ONE sense of the phrase, a bloody mess.

It does immerse us in an age of savage cruelty, in which knights who apparently have nothing better to do for a living maim and kill one another at such slight provocation that one wonders that there was anyone left alive. The episodic plot follows to some extent Sir Thomas Malory's medieval tome, *La Morte d' Arthur*, though the world created in the film is not at all the same as that which is created in Malory's tale. Though magical and supernatural forces are taken for granted, the re-creation of the era isn't nearly as consistent or convincing as that of a slightly later period done by Ingmar Bergman in *The Virgin Spring*.

The visual effects are excellent, and the action never stands still: scenes of battle, the scaling of ramparts, the quiet befogged lake into which the sword Excalibur is finally hurled. But the costumes so elaborately exhibited for our gaze would not have been possible without modern technology, and there are countless other signs of machine mass production. Nor is one aware, from the sumptuous feasts shown, that most people lived always at the edge of starvation. The elaborate gowns worn by the leading ladies are about as Arthurian as the aluminum in the armor of the knights.

The best thing in the film is the music, which, except for a few insipid contemporary interludes, is largely Wagner, with a few bits of Karl Orff's *Carmina Burana* thrown in. When the mood is martial, we get snippets from the Rhine Journey and the Siegfried Funeral Music from *Gotterdammerung*; when the mood is romantic, we get bits from *Tristan und Isolde*; during the Holy Grail sequences we get a few tempting fragments from *Parsifal*. These are fitting and powerful, though the music is constantly interrupted, and it stops so many times just before the savage crescendo in the Siegfried Funeral Music that one wonders whether it will ever be completed—and it finally is, in the concluding moments of the film while the screen credits are showing. Nothing that the screen can give us visually compares with this powerful musical conclusion, which is Wagner's. How much more rewarding it would have been to have a filming of the *Ring* cycle intact, so that one could hear the music as Wagner designed it, without the constant annoying interruptions.

• ACTRESS LEE GRANT HAS HER DIRECtorial debut in **TELL ME A RIDDLE**, which elicits marvelous performances from Melvyn Douglas and Lili Kedrova, who both deserve Oscar nominations for their work in this film. The film itself, though it may occasionally seem slow unless you enjoy soaking up atmosphere and delicate touches of characterization, is eminently worth seeing, not only because the two main characters are septuagenarians (seldom afforded such roles in American films), but because the idea itself is a sound one and is exquisitely carried out.

The couple are retired; he wants to sell the house, now too large for them, and she doesn't. (It seems trivial, but how significant it is made to seem, through her eyes!) He wins, and shortly thereafter she contracts cancer, and he and the children don't tell her, till finally she finds out for herself. Of all the many fine touches in the picture, best of all are the flashbacks to her childhood in Russia—traumatic experiences under a totalitarian government—with startling juxtapositions of past and present, explaining instantly as only film can why, as she approaches death, she sees and says what she does. It's strong stuff, and some viewers find any treatment of death depressing, but a beautiful piece of film making transcends all these limitations.

John Hospers is a professor of philosophy at the University of Southern California. His area of special interest is aesthetics.

language

Politics and the Eglinsh Language

By Richard N. Mitchell

"Our civilization is decadent and our language—so the argument runs—must inevitably share in the general collapse. It follows that any struggle against the abuse of language is a sentimental archaism, like preferring candles to electric light or hansom cabs to aeroplanes. Underneath this lies the half-conscious belief that language is a natural growth and not an instrument which we shape for our own purposes."

***

"The bottom line objection against industry-sponsored educational materials is how many more products the company will sell as a result."

"The multiplicity of commodities, as Ivan Illich criticizes, induces a new kind of poverty. . . ."

"Though corporate-sponsored teaching materials in many subject areas are responding to the needs of a relevant curriculum, they might also be viewed as expedient and defensive public relations in vested ideologies."

***

We have decided to begin memorial observances of *1984* a little bit early, since such subversive activities may not be permitted when 1984 rolls around. The epigraph above, however, is not from *1984* but from a celebrated essay, "Politics and the English Language," in which Orwell considers mendacious and mindless language far more common and insidious than the dramatic and perhaps too obviously perverted Newspeak of *1984*.

The other passages, written in the Eglinsh language, are all from *Huckster-*

ism in the Classroom: A Review of Industry Propaganda in Schools, by one Sheila Harty. Fortunately for Sheila Harty, Orwell did not live to read this book. He would have found even "industry propaganda" less reprehensible than school Eglinsh, for industrialists, unlike "educators," have never promised to devote themselves to the life and work of the mind.

Whether Sheila Harty will ever read "Politics and the English Language" we can not say, but it seems unlikely. She doesn't have to, you see, for her book has been awarded, by some other people who seem never to have read that essay, what the National Council of Teachers of Eglinsh, out of the serene presumptuousness that ignorance alone can bestow, calls the George Orwell Award for Distinguished Contributions to Honesty and Clarity in Public Language.

This weird award comes from the NCTE's Committee on Public Doublespeak, an especially shifty bunch. They're the ones who smugly hand out brickbats for the silly and devious language of businessmen, bureaucrats, politicos, and Pentagon spokespersons (which term the NCTE approves) but never seem to notice the inane cant of the educationists or even the trendy jargon of Eglinsh teachering. They wax mighty wroth at "enhanced radiation devices," but they'll not drum out of the corps those experts "thoroughly trained in grammar, usage, and linguistics," who tell us, in their report on the Third National Writing Assessment: "While there may be a sense of sections within the piece of writing, the sheer number and variety of cohesion strategies bind the details and sections into a wholeness."

In "Politics and the English Language," Orwell cites and discusses examples of the "slovenly...language that makes it easier for us to have foolish thoughts." Grim as Orwell's vision of the future was, he never dreamed that we would one day actually have to worry about gross and obvious solecisms in the public language of supposedly educated people. The faults in his examples do not include such grammatical gaucheries as "bottom line is how" or the pathetic baffled-freshman-trying-to-sound-fancy "as Ivan Illich criticizes." But even without such crudities, Harty's prose displays all the perversions of language that Orwell named: avoidable ugliness, staleness of imagery, and lack of precision.

Orwell was more specific. He discussed the routine use of the dying metaphor, that involuntary verbal twitch that tells us "that the writer is not interested in what he is saying." That seems at first an unlikely charge, especially in polemic writing, but *having an interest* in a cause is not the same thing as being interested in what you are saying. It is exactly the former that *does* lead to the thoughtless recitation of cant and stock phrases; it is the latter that demands thoughtful attention.

Was it out of thoughtful attention that Harty *chose* to characterize an otherwise unspecified attribute as "responding to needs," or was it out of her own habitual

You would think that a pack of Eglinsh teachers, most of whom flourish on money taken from taxpayers, would favor flourishing industries.

responding to the stimulus of conventional educationistic jargon? Was it after a judicious consideration of alternatives or after a jerk of the knee that she decided to distinguish one certain objection from all others by describing it as "the bottom line objection"?

Does she *mean* to say, as her garbled syntax suggests—"the bottom line objection...is how many more products the company will sell"—that increased sales are the *worst possible* result of "industry propaganda" in the schools? You would think that a pack of Eglinsh teachers, most of whom live on money taken from taxpayers, would favor flourishing industries and a vigorous economy. You might even think that the same people, who are devoted, of course, to the intellectual life and the freedom of the mind, might fear some even graver (or *bottomer* line) consequences of propaganda—*any* propaganda—in the classroom.

It was not out of skillful attentiveness but out of its opposite, routine thoughtlessness, that Harty ended up with "bottom line" at all, placidly content, apparently, with a particularly inappropriate jargon term borrowed from the enemy. It is out of that same thoughtlessness that the authors of Orwell's bad examples litter their prose with terms "almost completely lacking in meaning [and that] do not point to any discoverable object, but are hardly ever expected to do so by the reader." Harty would know, if she bothered to think about it at all, that her readers would accept "relevant curriculum" and even "vested ideologies" just as uncritically as she does.

Enough. You can do the rest of this yourself. Reread Orwell's essay. Even in those tiny fragments of Sheila Harty's prose, you will easily find all the items listed in Orwell's "catalogue of swindles and perversions." We have to get on with frying the *big* fish, the one who gives out prizes in Orwell's name for such rubbish.

Before it was catapulted into national prominence by being mentioned in the *Underground Grammarian,* the National Council of Teachers of Eglinsh was an obscure special interest lobbying club (a vested ideology, if you prefer). Its one little claim to fame arose, strange to say, from what had to be either an ignorance or a deliberate rejection of Orwell's most important assertion about language. Where Orwell thought language not "a natural growth" but "an instrument which we shape for our own purposes," the NCTE, in a time of troubles, made political points for itself (coincidentally taking its members off a hook and reducing their workloads at the same time) by announcing that every student had a right to a language of his own. Thus, to require of students the spelling, punctuation, grammar, and syntax of the "ruling class" was to deprive them of their rights.

Such logic would not have delighted Orwell. It finds the language of the student a "natural growth," like acne, and then proposes to protect him from the oppressive demands of conventional English because language is an instrument shaped for some purpose.

But that doesn't trouble the NCTE. What, after all, is logic? Just another tricky instrument contrived out of language. They don't care about Sheila Harty's prose, which reveals nothing more than the state of her mind; they love her *sentiments,* which show that her heart is in the right (which is to say "left") place.

Well, they may be sorry. Those greedy merchants may just this once put principle before profit and cut off the free supply of charts and filmstrips and brochures, and millions of teachers all over America will find themselves desperately trying to figure out what a teacher deprived of teaching materials is supposed to *do* in a classroom.

Richard Mitchell is the author of Less Than Words Can Say *and the publisher of the* Underground Grammarian, *from which this column is adapted.*

books

Honoring a Prophet

Fugitive Essays: Selected Writings of Frank Chodorov.
Compiled, edited, and with biographical introduction by Charles H. Hamilton. Indianapolis: LibertyPress. 1980. 249 pp. $9.00/$4.00.

Reviewed by Felix Morley

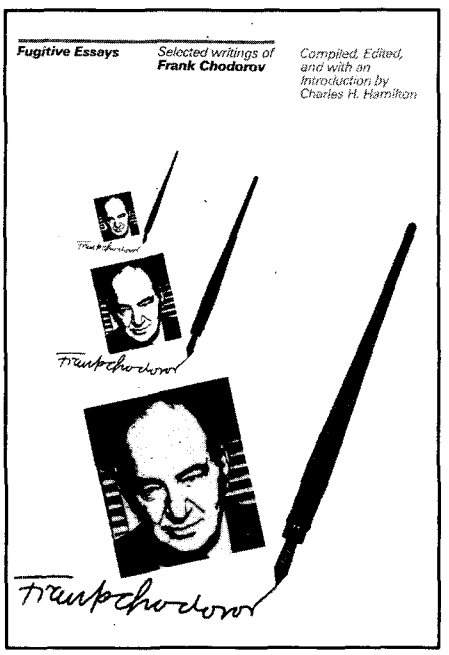
In the original sense of *fugitive*, it is an unseemly adjective for the title of this important political study. There was certainly nothing of the runaway either in Frank Chodorov or in anything he ever wrote. Only in the derived meaning of "scattered" or "occasional" is *fugitive* applicable.

Frank Chodorov (1887-1966) was of that type of journalist who will never subordinate talent to ordinary reporting. Like Henry L. Mencken in this respect, he took from the stream of circumstance only what interested him, commenting thereon without fear or favor. Mencken had the force to dominate a big metropolitan newspaper and thus assured his caustic line on politics relative immortality. Chodorov was the better historian and philosopher but published for the most part in offbeat media with little circulation. This LibertyPress reprint should help to redress the post-mortem balance in his favor.

The book is divided into 11 parts, each concerned with varying samples of Chodorov's writings on themes as disparate as communism, education, isolationism, militarism, natural rights, political mentality, and taxation. One section comprises essays on Jefferson, George Mason, and Thoreau, as instances of a now vanishing American individualism. An earlier sketch is concerned with Robespierre, with whom "The desire to do good turned into the desire for power to do good, and so he did no good at all." The whole is bound together with a biographical introduction by Charles H. Hamilton. As this is deficient for a period about which I have inside knowledge, I venture to supplement it here. Dates are important.

My diary records that I first met Chodorov on September 1, 1949, as I was leaving for Europe to do some broadcasting and, incidentally, to promote *Human Events*, of which I was then president and, in effect, editor. I had closely studied Chodorov's well-named personal broadsheet, *analysis*, and concluded that it would be advantageous to both if the two small publications were merged. That which Frank Hanighen, Henry Regnery, and I had incorporated was deficient in the background where Chodorov excelled. As he was to write, in the final essay included in the present volume, "Only a historical expert can trace the New Deal of modern America to the New Deal of ancient Rome, or recognize Sparta in Moscow." At our initial meeting, in New York, Chodorov met my overtures halfway, and it was agreed that he would join *Human Events*, in Washington, as soon as we could cover his modest living expenses.

Unfortunately a policy rift between Hanighen and myself had developed



sharply during my seven weeks in England, Germany, and France, when he necessarily exercized full editorial control. We had been as one in emphasizing the dangers in Roosevelt's alliance with Soviet Russia, since the Kremlin never made any secret of its desire to see "free enterprise" undermined in the United States. But when Russia had won, establishing Communist satellites throughout Central Europe, we would have to accept a highly unwelcome outcome largely of our own making. "The moving finger writes and having writ, moves on...." Just because we had blundered did not mean that we could now revise history to our own taste. The mission of *Human Events* should have been to discover some reasonable *modus vivendi* between the United States and the USSR. That outlook, I had ascertained, was also strongly held in Western Europe.

Hanighen, on the other hand, believed that it would be both justifiable and profitable to swing *Human Events* into a clearly anti-Soviet orbit, even though this meant more "entangling alliances," militarization, and centralization of government, which we had heretofore opposed. Argument against steering a collision course with Russia was met with the "soft on Communism" rebuttal. In retrospect I see this as the first premonitory break in what had been a united and fundamentally isolationist Conservative front. This "New Right" seemed to me, and very much to Chodorov, to lean in the direction of National Socialism and away from the restoration of the balanced Federal Republic to which we both aspired. Goering's "guns versus butter" issue was up again.

Anyway, the policy of *Human Events* had to be clarified. So, on February 14, 1950, I called a meeting of its stockholders to decide whether or not the editorial direction should be unified. In effect, as he was well aware, this was a request to Henry Regnery to decide whether Hanighen or myself should henceforth play second fiddle. Regnery voted against unification, telling me later that he did not think I would in any case continue to run the publication indefinitely—a not improbable assumption considering the heavy strain of having to support my family by separate remunerative work. I therefore resigned as president and surrendered my stock while agreeing to continue editorial supervision until June 1 to give Hanighen time to reorganize. The whole affair was handled with a minimum of ill feeling for nobody wanted to see an end to the project on which we had all worked so hard.

Our clientele had respected the closely reasoned and objective argument which had distinguished *Human Events*. So it was natural for Hanighen to invite Chodorov to fill the vacancy caused by my departure. As I knew nothing of this in advance, I could not warn either that an impasse would result.

It came with Chodorov's remarkably prescient article, "Warfare Versus Welfare," printed in the *Human Events* of January 10, 1951, and reproduced in the LibertyPress symposium. This essay starts with the assertion that "the welfare state is headed for the mothballs." It concludes that "in the immediate future the direction of the American state will be toward the acquisition of power for war purposes, not eleemosynary purposes. The tendency will be more and more toward totali-

tarianism. That is unavoidable." This stark forecast was highly unwelcome to the New Right and quickly led to Chodorov's suppression as an independent writer. But it has in no way diminished his standing as a prophet.

Felix Morley has had a long and distinguished career in American journalism.

Soul Poverty

Meanness Mania.
By Gerald R. Gill.
Washington, D.C.: Howard University.
1980. 104 pp. $10.95/$6.95.

Reviewed by Walter Williams

Gerald R. Gill is sure that Americans have turned mean over the last decade. *Meanness Mania* is the instrument used to tell us about our changed mood.

Evidence of this changed mood, according to Gill, is the increasingly vocal attack on social programs dear to the hearts of interventionists. The passage of Proposition 13 in California, antibusing amendments, Kemp-Roth tax cut proposals, and the failure of the Equal Rights Amendment all constitute, according to Gill, specific evidence of meanness mania thoughout the land.

This meanness is particularly puzzling to him because, as he says at the beginning of his book, "this study asserts that social welfare programs, busing, and affirmative action are effective strategies to help bring about equal educational and economic opportunities." Herein lies the book's distinction: Gill may be the only person in America who still views the Great Society programs as a success.

Space limitations preclude a full discussion of faulty logic and nonsense in *Meanness Mania*, so I will highlight the more outstanding stuff. Gill criticizes studies which point to the fact that blacks' incomes are rising. Blacks' *median* income is only 57 percent of whites', he counters. But using median income as a comparison leads to much mischief because it tells nothing about the distribution and, more important, nothing about other income-relevant characteristics of the groups being compared.

Would anyone be surprised, for example, if told that teenagers' median income is considerably less than that of adults? Then neither should you be surprised if someone told you that the median income of Mexican-Americans is considerably less than that of Italians in this country. Why? Mexican-Americans have a median age of 18 and Italians a median age of 36. The median age of blacks is 22, while that of the general population is about 30.

If all racial groups were identical in every income-relevant respect, median income alone *might* be a useful statistic for comparison. This is borne out by several recent studies which control for these differences. Those studies show that the income gap between certain groups is quite narrow.

In another chapter, Gill laments criticisms of public education. I really wonder whether he feels as though he could go to the slums of the Bronx, North Philadelphia, and Chicago and say to those schools: "A fine job. Well done." Yet he attacks improvement proposals such as tuition tax credits and vouchers, as possibly destructive of the public school system in America. School systems that graduate students who are functional illiterates are, in my judgment, good candidates for destruction.

The Great Society programs have eliminated poverty of the stomach but have heightened poverty of the soul.

Consider what Gill says: "Tuition tax credits, rather than increasing educational options available to parents, particularly black and low-income parents, pose a great threat to the present concept and historic intent of public education." Agreeing with Bayard Rustin, he says that such credits "will lead to the creation of a two-tiered educational system in this country—public schools for the poor and dispossessed, many of whom are black, and private schools for the affluent."

Were this kind of thinking not tragic, it would be riotous talk. For the most part, we already *have* a two-tiered educational system: almost-real education for whites and unreal education for blacks. And if the present *results* of public education bear any relation to its "present concept and historic intent," concept and intent could stand considerable overhauling.

I view tuition tax credits or vouchers as having zero downside risk for blacks' education. I take this stance not so much because of my faith in market alternatives for education but because I cannot conceive of a more effective way of sabotaging black academic excellence than by continuing the presently organized public education system.

Throughout *Meanness Mania*, Gill argues for the status quo—that is, the continuance of existing programs, but with more money. These programs of the Great Society have been successful in eliminating poverty of the stomach but have heightened poverty of the soul by making large segments of the American

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population dependent on government largess for its existence. Such dependency is dangerous, particularly for minority groups, because—Gill is right about one thing—moods do change.

There is meanness in America, but not the kind Gill cites. The meanness takes the form of our government permitting various interest groups to use its coercive powers to create monopolies for themselves. The Miami law, for example, that requires a person to go to school two years to get a license in order to go into business as a pool cleaner is *mean.* The taxi laws in Boston, Chicago, and New York that require that a person buy a license, which ranges in price from $40,000 to $65,000, in order to own and operate *one* taxi for a living is another example of meanness. The minimum wage law of $3.35 an hour, which in effect prohibits companies from hiring anyone who has the skills to produce only $2.00-an-hour worth of goods and services, is the supreme example of this meanness in America.

Ironically, people like Gill *completely* ignore, and sometimes even sanction, this kind of meanness. Instead, Gill says that Americans, who now work from January 1st to the 27th of May to pay their state, local, and federal taxes, are mean because they don't want to work on into the summer. That's mean when the former secretary of Health, Education and Welfare was able to tell Congress of his attempt to keep waste, fraud, and mismanagement in HEW to $9 billion a year? I'll just have to be one mean mother. And I'm sure glad that *Meanness Mania* is biodegradable.

Walter Williams is a visiting professor of economics at George Mason University.

The Fortunes of the Dairy Lobby

Milking the Public.
By Michael McMenamin and Walter McNamara.
Chicago: Nelson-Hall. 1980.
300 pp. $13.95.

Reviewed by Gregg Easterbrook

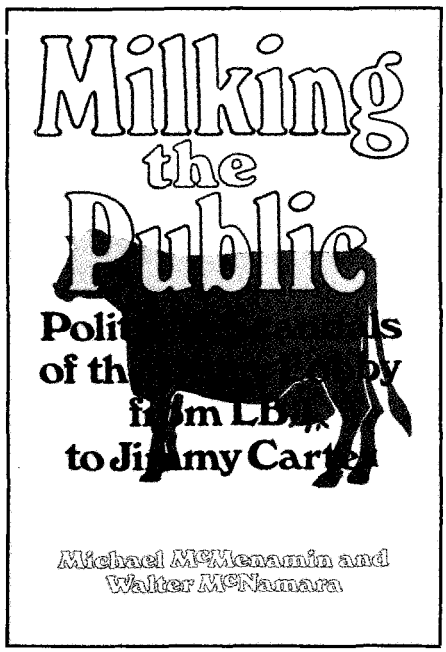
In the city of Washington, certain words are instantly associated with corruption. *Nixon* is one, and *Korea* is another. A third is *milk.* Yes, milk, the wholesome drink from contented moocows, is synonymous with wrongdoing.

To learn the reasons why, read *Milking the Public* by Michael McMenamin and Walter McNamara. The book explains in great detail how the dairy industry has milked us all for billions—an estimated $500 million to $800 million a year more than the market value of milk—by using a system of cooperatives, taxpayer-subsidized price supports, and politicians bought off with bribes or "contributions."

A dairy cooperative, to start with, is not a bunch of friendly farmers who get together for barn raisings. It's a cartel front-group. Most or all of the raw milk in any given area is funneled through a co-op in order to fix at an artificially high level the price that milk processors must pay. Meanwhile, federal support mechanisms guarantee a minimum price and ensure that any surplus milk will be purchased by the government, making milk production nearly risk-free.

Co-ops, the authors note, did not consolidate their power until the mid-1960s. It's no surprise that that is when the bribes, "contributions," and steep increases in price supports began in earnest. Presidents Johnson, Nixon, and Carter have been splashed with dirty or at least suspicious milk money, McMenamin and McNamara say; so have hundreds of congressmen. Even populist champion Hubert Humphrey was tarnished.

The sums have often been staggering. One co-op alone gave $100,000 to a Nixon campaign. New campaign-finance laws have cut the size of individual sums but done little, the authors believe, to diminish the dairy lobby's influence. The three largest milk co-ops managed despite the new laws to contribute $1.2 million to congressional candidates in 1980.



It's ironic to note that in the 15 years since the milk scandals and artificially high prices began, milk consumption has declined significantly. The average American consumer drinks about 30 percent less milk now than he did then. You might think this would give dairy farmers pause and inspire them to improve their product's reputation and lower its price. Apparently not. After all, Washington can award them higher profits by boosting price supports—and if people boycott milk as a result, well, then Washington just buys up the surplus (using the boycotters' tax money, natch). "The dairy lobby believes that politicians are more important to their economic survival than consumers," McMenamin and McNamara note.

This preference for bailouts, subsidies, and political arm-twisting over meeting economic problems head-on is central to the decline of American industry. In agriculture, government subsidies have been granted to tobacco (a double subsidy, since government also pays much of the costs of the cancer that tobacco causes), sugar, and other commodities. At the moment, peanut farmers are demanding special handouts, a particularly brazen exercise in greed since peanuts are in short supply, making peanut prices soar on their own.

There is some hope of relief, as the Reagan administration was successful in its fight to block the milk price-support increase scheduled for April 1. But there's still a long way to go. Remember, if the price support doesn't go up, farmers might compensate by increasing milk production, forcing the government to buy up even more surplus.

The book documents complex milk wheeling-and-dealing in exacting fashion. Especially impressive is a long chapter about the bribe controversy surrounding John Connolly. The jury found Big John innocent, but the reader may come to other conclusions. (Whether Connolly may be guilty or not, the authors point out, at no point did the dairy lobby ever deny that it *attempted* to bribe him. It almost seemed proud of the fact—and asked that the $10,000 bribe seized as evidence be returned!)

Unfortunately, most of *Milking the Public* has about the same effect on the reader as a warm glass of what's being talked about. The writing is humorless and predictable and so crammed with numbers and acronyms that it's almost impossible not to get lost. But perhaps

more important, the authors do not communicate any sympathy for the human side of the industry they are dissecting. There is no sense that either of the authors has ever wandered around a dairy farm with hip boots on or accompanied a milk truck on its predawn run.

Yes, milk, the wholesome drink from contented moo-cows, is synonymous with wrongdoing.

Maybe they have, but it doesn't show. There is no sense that the authors have done any research beyond checking clip files and legal documents, and this might explain both the book's lack of anecdotal richness and its failure to sympathize with the hardworking farmer at the bottom of the chain.

The milk business *is* politically corrupt and overly subsidized, and that should be changed. But even as we appreciate *Milking the Public*'s contribution in making this clear, we must remember that the dairy farmer is a pretty impressive old coot. Despite price-support inflation, retail milk prices remain lower here than anywhere except Australia and New Zealand. The high productivity of US dairy farms has also prevented any serious shortages in recent decades.

The fact that dairy farmers—most of whom are decent, industrious, and not living lives of conspicuous luxury—got involved in the co-ops and "contributions" bears troubling lessons about a country where it is all too easy for decent people to slide into respectable-sounding wrongdoing. Yet McMenamin and McNamara seem to suggest that squeezing an udder transforms one into an evil creature, and that is just not true. Condemning the dairy farmers' excesses, as this book does, is necessary to expose where they have gone wrong; sympathizing with their good side, which this book does not, will be necessary to spark lasting reform.

Gregg Easterbrook is an editor of the Washington Monthly.

Demolition Detail

The Ecology of Housing Destruction.
By Peter D. Salins.
New York: New York University Press, for the International Center for Economic Policy Studies. 1980. 155 pp. $10.00.

Reviewed by M. Bruce Johnson

The South Bronx is a term in the vocabulary of every American who watches TV, reads newspapers and magazines, or pays the least bit of attention to contemporary politics. More than a symbol, the term evokes real images of burning buildings, piles of rubble, and vast areas of utter destruction matched only by the World War II photographs of Dresden and London after the blitz.

The best estimates indicate that over 200,000 apartments were lost from the New York housing stock in the period from 1960 to 1975. The destruction was not confined to the Bronx; Brooklyn, parts of Manhattan, and even Queens account for some of the loss.

Why have hundreds of thousands of housing units been destroyed, with hundreds of thousands more "in process"? The standard explanation for those of us far removed from the scene is all too simple: rent controls! After all, New York City has had rent control in a variety of forms since 1943. Approximately 402,000 apartments are still rent-controlled; another 552,000 have moved from controlled status to "rent-stabilized" status since the passage of legislation in 1974. Still another 320,000 units (built subsequent to 1947) are "stabilized" without ever having been "controlled." All told, two-thirds of the housing stock in New York City is subject to one form of price regulation or another. Our knowledge of the workings and effects of rent controls in other times and places would seem sufficient to enable us to blame the South Bronx syndrome on the workings of rent controls and regulation.

Prof. Peter D. Salins argues that there is more to it; rent control is one of several forces that interrelate to produce the destructive dynamics we observe in New York. Salins refers to this as the "ecology of destruction" and lists the major components as follows: (1) the public assistance (welfare) system, especially with respect to the administration of its program of shelter allowances; (2) the complex, multilayered system of rent regulation and its impact on the market for housing; (3) the system of adjudicating landlord-tenant disputes, especially in its treatment of code-violation complaints; and (4) the dynamics of the ownership sector of the real estate market, especially as it operates on marginal rental property.

It is virtually impossible to do justice to Salins's book within the confines of a brief review. The feedback among the several programs can be very complicated, and an appreciation of the full story can be obtained only by reading his well-written analyses and scenarios, each of which is based on well-established facts.

Here is an abbreviated example of one of those scenarios. As of 1978, 242,000 New York welfare families received stipends to cover the full costs of their shelter rents. This stipend is a check that is tied to shelter costs and, in principle, is an in-kind subsidy that the welfare family cannot spend as it pleases. New York also has a housing court that adjudicates disputes among landlords and tenants apart from the traditional legal system. Over time, these courts have come to side with tenants in a crucial way: The courts authorize or condone the withholding of rent from landlords in the event of alleged violations of the building codes.

In a typical scenario, the tenant withholds the shelter allowance rent check from the landlord, cashes it himself, contests eviction, and simultaneously claims there are building code violations in the units. Tenants can and do willfully and consciously create code violations to justify withholding of rent (which they then spend on other things).

The legal process takes time in the housing court. Once a violation has been removed, the court condones a "negotiated" settlement for the rent in arrears, and the landlord frequently never collects the rent. If the landlord does prevail and the tenant is evicted, the welfare department provides a moving allowance, will help find a new apartment for the tenant, and may even raise the shelter allowance. Because of rent regulation, the rents in many "better" neighborhoods are below market levels and are attractive to the welfare tenant.

Salins argues that the shelter allowance combined with the housing courts provide strong incentives for the tenants to move frequently, to withhold rents, and to cause or contribute to the physical deterioration of the units they presently occupy. As they leave, vacancy rates rise, capital values of buildings fall, and, acting in their own self-interests, landlords in marginal properties are encouraged to postpone maintenance, default on taxes, and generally arrange their affairs so as to maximize short-run

profits. Ultimately, the building is abandoned and leaves the housing stock, or the units may be shifted to city ownership by default.

Salins's prescription for change includes the replacing of rent-specific housing allowances with outright grants that allow welfare families to spend their money as they please, elimination of all forms of rent regulations for apartments as they are vacated, and modification of the adjudicatory system so as to divorce considerations of housing maintenance and code violations from those of rent delinquency and to ensure that all proven rent-delinquent tenants can be evicted.

In summary, I give the Salins book very high marks on both depth and breadth of analysis. I cannot recall a clearer documentation of the unintended consequences of government intervention in a market. The perplexing question is: How bad must the results get, and how long must they endure, before the visible hand of public intervention withdraws? Is the pathology of government intervention so deterministic that the patient must die before the treatment is abandoned?

M. Bruce Johnson is a professor of economics at the University of California at Santa Barbara, research director for the Pacific Institute for Public Policy Research, and the editor of the Institute's forthcoming book, Resolving the Housing Crisis.

Legal Laments

Lawyers on Trial.
By Philip M. Stern.
New York: Time Books. 1980. 265 pp. $12.50.

Reviewed by Doug Bandow

It was once remarked of 13th-century poverty lawyer Saint Ives that "he was a lawyer, yet not a rascal, and the people were astonished." Attorney and author Philip Stern has written a sharp, polemical book analyzing why lawyers are generally held in such low regard.

Stern begins his attack on lawyers by charging that "justice is for sale to the highest bidder, with the highest bidders—the richest among us, the giant corporations and some wealthy individuals—getting most of it." How do they get away with it, he asks? By effectively overruling competitive free-market forces through state regulation.

He explores several levels of regulation:

Law School Accreditation. The American Bar Association and state bars have pushed states to require students to attend accredited law schools and have busily promulgated scores of regulations, many only tenuously related to educational quality. Stanford Law School Dean Charles Meyers suggests that "the contention that regulation is a guaranty of quality is, in my view, more an act of faith than an established fact."

Indeed, the California State Bar again is attempting to shut down California's unaccredited law schools, California being the only state in which unaccredited law school graduates can sit for the bar examination. California State Bar President William Wenke recently declared that "not everybody should be allowed to practice law."

The Bar Exam. Stern points out the bar exam's many inconsistencies (for example: requiring the exam assumes that even the graduates of accredited schools are not qualified to practice law), questions its efficacy, and charges that it creates a barrier to the practice of law. Others share his concerns. For example, Richard J. Favretto, deputy director of operations of the Antitrust Division of the Justice Department notes that "one should be suspicious of any system in which those in the market determine who can enter; the natural incentive is to make things a bit tougher as increasing supply threatens to bring down fees."

Stern fails to recognize the irony of proposing what amounts to a full employment act for lawyers.

Good Moral Character. Stern exposes the blatant hyprocrisy behind the requirement that one be of "good moral character" to practice law. The focus, he argues, is all too often on antiestablishment views and activities and not on matters relating to consumer protection. In 1979 the Virginia State Bar even attempted to prevent an unmarried woman from taking the bar exam because she was living with a man.

Business Practices. Stern presents a searing indictment of organized bar practices, noting that "the bar has succeeded in stifling any price-cutting competition from within the profession." It has done so by outlawing advertising and setting fixed-fee schedules, banning solicitation, and restricting legal clinics and legal insurance. Only recently have some of these practices been voided or modified by the courts.

Even more important, the profession has stifled outside competition by suing nonlawyers for the "unauthorized practice of law"—doing (indeed, *doing well*)

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"lawyers' work." This is solely a device of monopoly preservation; the Wisconsin Supreme Court declared in 1962 that "we need not and we should not acknowledge a layman's right to practice law in a specialized field because the layman appears to be competent in it."

Discipline. Finally, the inherent reluctance of the bar to police itself is demonstrated. Stern argues that 90 percent of complaints are dismissed without an investigation, and only 2 percent ultimately result in some discipline. He cites the conclusions of a 1970 ABA panel headed by a former Supreme Court justice that the situation is "scandalous."

Not that this should be surprising. Lawyers within a sheltered monopoly have little incentive to crack down on their errant brethren. Only the force of competition will compel lawyers to be "ethically competitive."

Legislated Legal Fees. Many states arbitrarily set excessive fees for often routine work, such as probate and house sales, forcibly enriching lawyers and impoverishing clients. As Wisconsin probate reformer Walter Heiden has observed, "Estates should be left to loved ones, not to attorneys."

However, while Stern relentlessly dissects the bankruptcy of state regulation, he allows himself to be sidetracked by his instincts for coerced egalitarianism. For example, he bemoans the fact that taxpayers are not forced to subsidize "public interest" lawyers, who, far more often than not, support broad extensions of State power. He also supports pure no-fault insurance, which would prohibit victims from seeking recompense.

Further, he complains about attorneys' (most lobbyists are culled from the legal profession) "special *access* to the ears of decision makers." He fails to recognize that what matters is not so much the access of the lobbyist but the unwarranted power of the decisionmaker.

This diversion leads him to some disappointing proposals. Stern's *pièce de résistance* is a National Legal Service to provide free legal services to all, with members of the private bar forced to do a certain amount of NLS work. Related to this is the idea of government funding of "public interest" (*his* special interest) lawsuits.

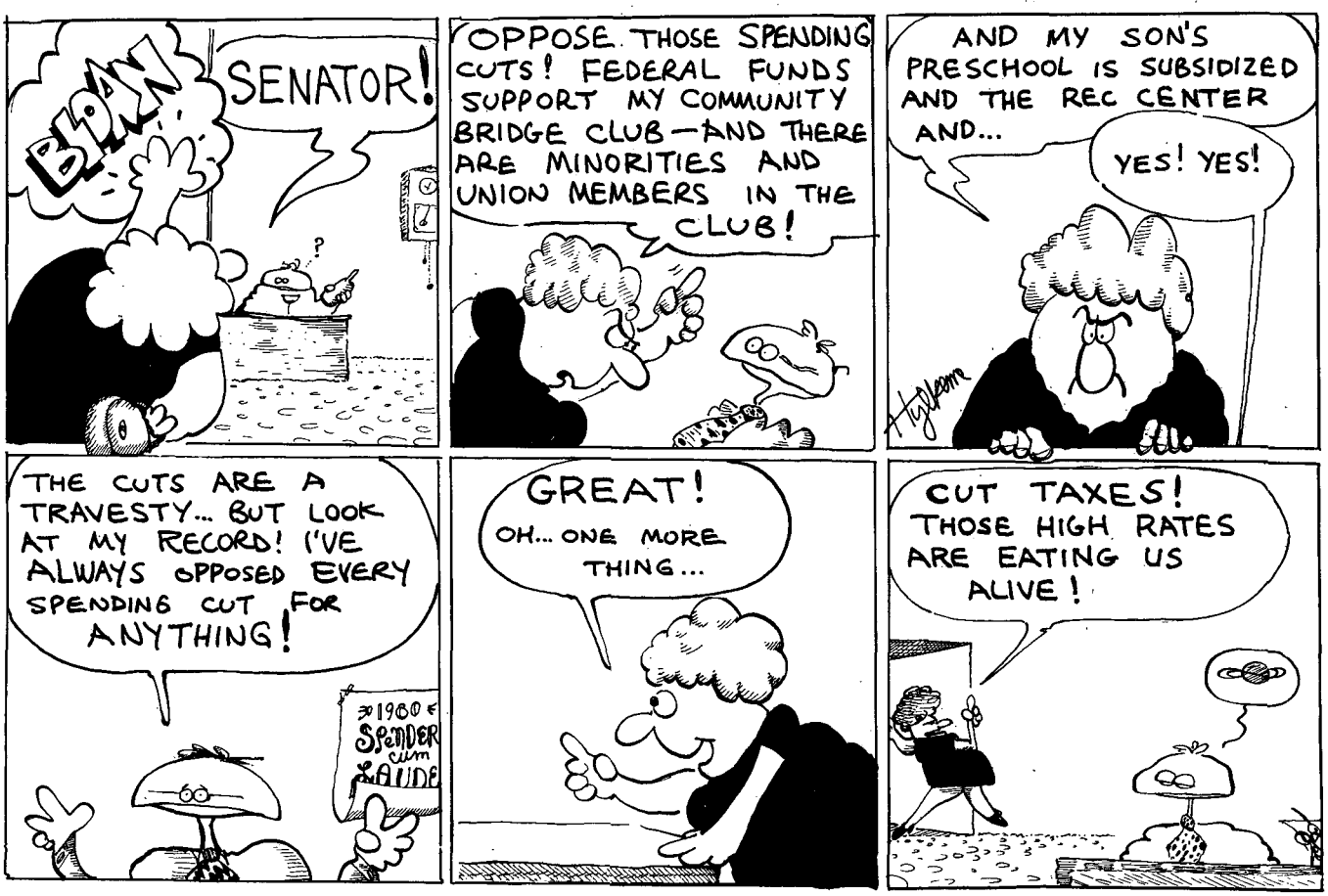
Stern ignores the immorality of forcing taxpayers to fund a new bureaucracy and lawsuits they may oppose and forcing private attorneys to participate. He denies the clear experience of socialized medicine: skyrocketing costs, deteriorating quality, and dehumanized care. And he fails to recognize the irony of proposing what amounts to a full employment act for lawyers.

Thankfully, Stern does propose breaking up the lawyers' monopoly, reducing people's dependence on legal experts, and facilitating class action suits. But he does not discuss the organizations behind such reform proposals, such as HALT (Help Abolish Legal Tyranny).

Lawyers on Trial bluntly, and occasionally brilliantly, exposes the system of monopoly exploitation erected by the organized bar and sustained by the State. Though Stern's commitment to coercing

rudebarbs

Randall K. Hylkema


BLOW!
SENATOR!
?
OPPOSE THOSE SPENDING CUTS! FEDERAL FUNDS SUPPORT MY COMMUNITY BRIDGE CLUB—AND THERE ARE MINORITIES AND UNION MEMBERS IN THE CLUB!
AND MY SON'S PRESCHOOL IS SUBSIDIZED AND THE REC CENTER AND...
YES! YES!
THE CUTS ARE A TRAVESTY... BUT LOOK AT MY RECORD! I'VE ALWAYS OPPOSED EVERY SPENDING CUT FOR ANYTHING!
1980 SPENDER cum LAUDE
GREAT!
OH... ONE MORE THING...
CUT TAXES! THOSE HIGH RATES ARE EATING US ALIVE!

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people to support his vision of the public good at times blinds him, the book is an important shot in the battle to reestablish the primacy of individual liberty in the legal profession.

Doug Bandow is a domestic policy advisor on the White House staff.

letters

(Continued from p. 14.)

"alleged" relationship because, as I said in the comment I made on a *New York Times* column by Paul MacAvoy, the monopoly loss estimate was of much broader compass, and my views on the matter are much more complex than either you or MacAvoy attribute to me. The supposed direct quote on "credence" does not come from the MacAvoy article. Perhaps it is in Thurow's book, which I have not read, but I suspect it originally appeared in *Barron's*. It is certainly taken out of context, either by you or an earlier source. It was uttered, as I recall, in somewhat the same spirit as Mark Twain's observation that he wouldn't think of joining a club that would accept him as a member. Or was it Will Rogers?

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I also take exception to much of what Thurow has to say about antitrust. But I am not asking for equal time. It would take a lot more time than I have seen him give the issue to set the record straight. I write this only to let you know that there are some of us out there who still care about getting the facts right.

F. M. Scherer
Evanston, IL

Mr. Poole and Ms. Dorffi reply: The source of our story, including the quote on "credence," was an article in *Business Week* (Jan. 12). We, too, are interested in getting the facts straight and appreciate Professor Scherer's clarification of the record.

Unleashing the Lawyers

Re your Trends item "Dump Antitrust" (Apr.), admittedly saving $80 million antitrust dollars in the public sector and probably twice as much in the private sector would contribute somewhat to our annual aggregate economic joy. But think of the real benefit. Thousands of skilled lawyers would now be available to society to be employed at something socially beneficial. They could, say, run for public office, teach potential EPA and OSHA employees, and make a modest contribution to criminal justice by making sure society had the resources to continue processing victimless crimes.

Fred Drugan
San Diego, CA

Libertarian Linguistics

Having listened for years to the ignorant platitudes of those who believe they are defending bastions of our embattled language I can stand it no longer. Enough! It is time for a whiff of libertarian (not to mention rational) fresh air. I am writing in response to the favorable review by James Chesher of John Simon's book *Paradigms Lost* (Apr.), a review which is full of almost as many obfuscations, prejudices, and just plain errors as is the book itself.

There is a consensus (fortunately not general) among conservatives that the English language is decaying. As evidence for this they cite the use of "they" referring back to such indefinite forms as "anyone," and the use of the nominative case after conjunctions ("between you and I"), and innumerable others. What evidence do they offer that one form is any more concise, precise, logical, or moral than any other? None. They offer none because the only evidence they have available is: It is Tradition that determines which constructions are socially acceptable and which are not. Logic is not involved.

As a linguist I have needed, at one time or another, to study over twenty languages, from Hittite to Japanese. In Chinese, one says "between you and I" because there are no separate words for "I" and "me." Does this mean therefore that speakers of Chinese have blunt tools, to borrow a metaphor from Simon? The analogy to tools is faulty....the kind of language imperialism that Simon advocates could only be enforced within the kind of centralized, universal, compulsory education that liberals love and libertarians abhor. The standard-bearers of standards are merely enforcing their prejudices about appropriate, noncoercive behavior on minorities in the same way as conservatives did in requiring short hair, long skirts and no beards back in the early sixties. The mentality is the same. It is not libertarianism by any stretch of the imagination.

Geoffrey S. Nathan
Southern Illinois University

Mr. Chesher replies: If there is a consensus, must it not also be general? Perhaps Professor Nathan meant something else, just as (I generously assume) he meant to say *preposition* where he said *conjunction*. But there you have it, the kind of linguistic carelessness Simon abhors—and from a linguist at that.

Pickiness aside, I agree with Nathan's distinction between convention (Tradition) and necessity (Logic), but that's not what's at issue. Nor is a linguistic fact about Chinese relevant: Chinese is an inflectional language, whereas English is distributive. Different *rules* apply. No doubt a Chinaman can botch up his language as well as we can ours. And isn't it an interesting fact that the great Chinese language, for lack of standardization, has fragmented into numerous dialects, some of which are often called languages in themselves? This no doubt provides more economic opportunity for linguists, but wouldn't Simon say, "I told you so"?

Simon's point is simply that standards are to language what principles are to living—abandon them, and disintegration soon follows. The language crusaders have never advocated force to realize their ends. And since when is it antilibertarian for someone to plead his case? After all, Simon wrote a book; he didn't load a pistol.

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THE CLASSIFIED AD DEADLINE FOR THE SEPTEMBER ISSUE IS JULY 1.

11 Questions on Tax Audits

How many of them can you answer?

1. What should you do if you're called on by an IRS "Special Agent"? (One thing — and one thing only. At once! See page 84 of *The Taxpayer's Audit Survival Manual.)*

2. True or false: the IRS has no good way of checking out those 1099's on your dividends, interest, etc. (The wrong answer on this could cost you. See page 29.)

3. The IRS sends you a form letter questionnaire on your return. Is this cause for alarm? (It may be cause for *relief.* But only if you handle it just right. See page 57.)

4. Should you take a professional to an audit? Who should do the talking? (It all depends. See page 76.)

5. Can your accountant be made to testify against you in a tax case? Your lawyer? (The answer to this may be a real eye opener. See page 142.)

6. Should you attach "explanations" to your tax return? (Caution: they could bring *on* instead of preventing an audit. See page 193.)

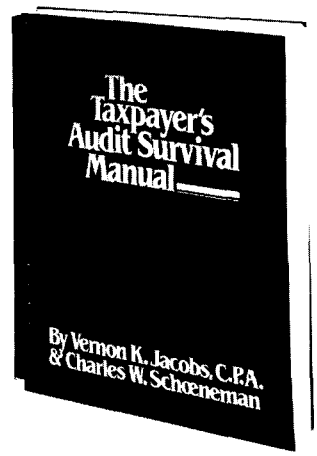
7. Should you "round off" figures on your tax return? (Don't do it before reading page 197.)

8. The tax auditor's in your office. Who should talk to him. Who shouldn't? (Spare yourself trouble. See page 88.)

9. Should you concede arguments early in an audit? If not, what should you do? (Save money. See page 93.)

10. An agent stops his audit without good reason — a sign he may suspect you of criminal fraud. Is there any way to guess at what he thinks you've done? (There may be — if you've taken one precaution. See page 133.)

11. What should you do if you're caught breaking a tax rule? What should you *not* do — ever? (This could be critical to your whole future. See page 93.)



If you don't know the answers to questions like those above (and few taxpayers *do,* even those who are otherwise sophisticated), then in today's tax climate, you're living dangerously.

Dangerously because you may unwittingly and needlessly be risking a tax audit. And dangerously because if you *do* get audited, you may unintentionally get yourself into much more trouble than you started out in.

How can you protect yourself? Now, help is at hand in *The Taxpayer's Audit Survival Manual.*

The authors of this book are two of the nation's top authorities in the field. Charles Schoeneman, formerly with the U.S. Tax Court, is now a Washington tax attorney (with an impressive client list). Vernon Jacobs is a CPA, and a nationally-known tax consultant. The author of *Taxpayers' Counterattack,* he is also the editor of the advisory service, *Tax Angles* — and thus expert on shrewd, yet legal techniques for cutting taxes to the bone, avoiding audits, and coping successfully with the IRS if you *do* get tapped.

These authors know the questions that worry you about audits. They know the answers, too. And they spell out the whole audit story for you in detail in *The Taxpayer's Audit Survival Manual.* You'll learn...

How you're picked for audit — and how to minimize your chances.

- Things that flag the IRS computer. Pg. 22. Three things to always avoid like the plague. Pg. 199
- The one kind of return that's always screened for possible audit. Pg. 24.
- A simple way to make your return look more unchallengeable to IRS screeners. Pg. 191.
- How choosing the wrong tax preparer could bring you up for audit. Pg. 24.
- Why the way you list your job may increase your chance for audit — and how to list it so it doesn't. Pg. 197.
- The best and worst times to file if you want to cut odds of an audit. Pg. 197.

How to protect yourself if you're picked

- The very first thing you should always do when approached by an IRS agent. Pg.74.
- When it's probably O.K. if there's a second agent with your auditor. When it may mean *big* trouble. Pg. 84.
- What records to bring to a desk audit. What not to bring. What to do if questioned on the records you left home. Pg. 64.
- When to cooperate during a desk audit. When to stop cooperating. Pg. 81.
- 10 vital rules for any audit. Pg. 99.
- Should you take an IRS agent to lunch? "Tour" him through your business? Pg. 89, 91.
- 28 signs of possible criminal fraud. How an auditor acts if he's suspicious. Pg. 129.
- When you're required to show the IRS your records. When you're not. Pg. 88.
- A critical mistake that can instantly turn a minor civil audit into a potential criminal case. Pg. 76.

How to handle the aftermath

- The agent's objectives in "closing" the audit. How not to get railroaded. Pg. 100.
- When to agree with an agent on the spot. When not to. What happens then. Pg. 102-5.
- What will happen if you *can* pay. 5 things to do if you can't. Pg. 152.
- The simplest, cheapest way to appeal (but you must act fast). Pg. 166.
- How to use a court suit to force the IRS to compromise. Timing's critical. Pg. 183.

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